



COVERSHEET

Minister	Hon Shane Jones	Portfolio	Resources
Title of Cabinet paper	Removing royalty obligations to encourage the development of underground gas storage facilities	Date to be published	12 October 2026

List of documents that have been proactively released

Date	Title	Author
19 August 2026	Removing royalty obligations to encourage the development of underground gas storage facilities	Office of the Minister for Resources
26 August 2026	Removing Royalty Obligations to Encourage the Development of Underground Gas Storage Facilities ECO-26-MIN-0170 Minute	Cabinet Office
19 August 2026	Regulatory Analysis Summary: Removing royalty obligations to encourage the development of underground gas storage facilities	MBIE

Information redacted

YES / NO

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Some information has been withheld for the reasons of confidential information entrusted to the government, legal professional privilege, international relations and commercial information.

In Confidence

Office of the Minister for Resources

Cabinet Economic Policy Committee

Removing royalty obligations to encourage the development of underground gas storage facilities

Proposal

1. This paper seeks Cabinet agreement to remove the requirement for developers of underground gas storage (UGS) facilities to pay a single upfront royalty on the original gas contained in the reservoir, limited to the gas required for the operation of a UGS facility ('cushion' gas).
2. This paper also seeks agreement to issue drafting instructions to the Parliamentary Counsel Office (PCO) to amend the Crown Minerals (Royalties for Petroleum) Regulations 2013 to give effect to this change.

Relation to government priorities

3. This proposal supports the Government's priority to strengthen New Zealand's energy security. It is also related to the National-NZ First coalition agreement commitment to 'future-proof the natural gas industry by restarting offshore exploration', as additional gas storage capacity would strengthen overall gas system resilience.

Executive Summary

4. Additional gas storage facilities are needed to enable the flexibility of the gas system, to ensure gas is available for electricity generation during times of peak demand. This is more acute as we head towards a situation where Methanex exits the New Zealand market and we lose the demand flex that it currently provides.
5. Current regulations require a single upfront royalty to be paid on original gas¹ remaining in the field when developers are granted a permit to convert a reservoir to a UGS facility. Industry says that this upfront cost is a barrier to development of new gas storage facilities, which also require substantial upfront capital investment.
6. This paper seeks Cabinet's agreement to remove this upfront royalty burden on the amount of gas that is reasonably necessary for the operation of the facility. This is called cushion gas. This will incentivise the development of new gas storage facilities to support New Zealand's energy security. This will enable the generation of electricity needed to ensure the security of New Zealand's domestic energy supply, as part of our transition to increased use of renewable

¹ Original gas is defined in the Crown Minerals (Royalties for Petroleum) Regulations 2013 as the economically recoverable gas in an underground gas storage facility before injection of gas from another permit area.

energy. It would also bring New Zealand's regime in line with how royalties for UGS facilities are typically treated internationally.

Background

7. Underground gas storage is a key enabler of gas supply flexibility. Internationally, these subsurface facilities most commonly occur in largely depleted natural gas reservoirs, which are often connected to existing distribution networks and are well suited to store gas which has been transferred from its original location.
8. New Zealand has relatively limited experience with gas storage – the Ahuroa facility in Taranaki (permitted in 2010) is currently New Zealand's only facility.
9. Regulation 15 of the Crown Minerals (Royalties for Petroleum) Regulations 2013 (the royalty regulations) provides that holders of a mining permit that includes an underground storage facility must pay a one-off royalty on the original gas before any additional gas is injected for storage. This royalty must be paid upfront, at the time the permit is granted, to avoid the intermingling of royalty-paid and royalty-unpaid gas.²
10. These arrangements are based on the principle that the Crown is entitled to the royalties that would have been paid on the original gas if the reservoir had not been converted to a gas storage facility. However, the cushion gas which is required to support the operation of the facility is unlikely to ever be extracted and sold.

Gas storage is assuming greater importance for New Zealand's energy security, but current settings may pose barriers to new development

Alternative sources of gas system flexibility are limited

11. The expected closure of both the Māui gas field and Methanex (expected late 2026 or early 2027) pose major implications for the ability of the gas system to maintain a stable and affordable supply of gas for power generation and industrial users.
12. Natural gas tends to be produced as a constant flow throughout the year, but demand is far more cyclical, with peaks over winter when demand for electricity generation is higher, and in dry years when hydro lakes are low.
13. There are three main ways of balancing these uneven supply and demand patterns:
 - a. **Flexing demand** by reducing gas consumption during periods of high demand or constrained supply. This has been largely provided by Methanex, which can lower or stop production and allow gas to be redirected to electricity generation during periods of peak demand.

² The royalty is only required for gas injected from another permit area, as the injected gas will have already had royalty paid on it. For gas mined within the same permit area, the royalties are payable at the point it leaves the permit area, regardless of whether it is stored first.

- b. **Adjusting supply** – increasing or decreasing gas production in response to changes in demand. Historically, the Māui field was able to provide this flexibility by varying production rates, but this capability has reduced significantly as the field has matured and production has declined.
 - c. **Storing excess gas** when it is produced and releasing it when demand exceeds production.
14. Once Māui and Methanex close, the biggest source of gas system flexibility will be gone. Without system flexibility, industrial gas users could be required to close (temporarily or permanently) during periods of peak demand, and other gas fields may need to shutter production at times of low demand.
 15. Other industrial gas users are considerably smaller in scale than Methanex and have limited ability to flex their demand. If demand reduction is required in future to balance the gas system, it will affect a larger group of industrial users.
 16. Some fields can adjust supply in response to changes in demand. However, relying on production adjustments to balance the gas system risks accelerating the decline of domestic gas production. Temporarily shutting down production from these fields can result in a permanent loss of production capacity and, in some cases, may prevent production from resuming altogether.

Underground gas storage facilities provide a flexible buffer, but our existing capacity is insufficient

17. Gas storage facilities are the other alternative to provide flexibility to the gas system. They smooth out short-term volatility by allowing gas produced in summer when demand is low to be stored for later use, such as in winter and in dry periods.
18. New Zealand has one gas storage facility at Ahuroa in Taranaki. However, its capacity is insufficient to replace the large-scale demand response currently provided by Methanex.³
19. Other depleted reservoirs in the Taranaki region may also be well suited to gas storage developments. At present, there are at least four separate proposed gas storage projects of various sizes. If all projects were successful, this would quadruple our gas storage capacity.⁴
20. Expanded gas storage capacity would provide a buffer to support the gas system once Methanex leaves. It could also support stockpiling of LNG imports and, in future, may have potential to be adapted to store alternative gases as the system moves towards renewables.
21. The Government has recognised the importance of gas storage in supporting the flexibility and deliverability of gas in a future low volume market by including it within the scope of the Gas Security Fund [ECO-25-MIN-0167].

³ Ahuroa has a storage capacity of 7 PJ. In the 2024 dry year event, Ahuroa drew down 3.1 PJ, around 14 per cent of the 22 PJ demand response provided by Methanex over the same period.

⁴ Proposals from the developers MBIE officials have spoken to have a combined storage capacity of up to around 21 PJ Confidential information entrusted to the Government.

Current royalty settings may be inhibiting new gas storage developments

22. Converting a depleted reservoir to a gas storage facility requires significant capital investment in equipment, in the order of many tens of millions of dollars.
23. Developers considering gas storage projects say that the requirement to pay the royalty on original gas upfront is negatively impacting project economics – it is an additional cost incurred at the outset of gas storage operations, likely before they turn a profit. The Gas Working Group also raised current royalty settings as a disincentive to new gas storage developments in its November 2025 report.⁵
24. The projected royalty owed on the estimated original gas volumes across the known gas storage proposals is small – I expect that the Crown would collect a total of around \$5–6 million in additional royalty revenue if they are permitted under current regulations.⁶ This is around four per cent of total yearly petroleum royalty revenue.

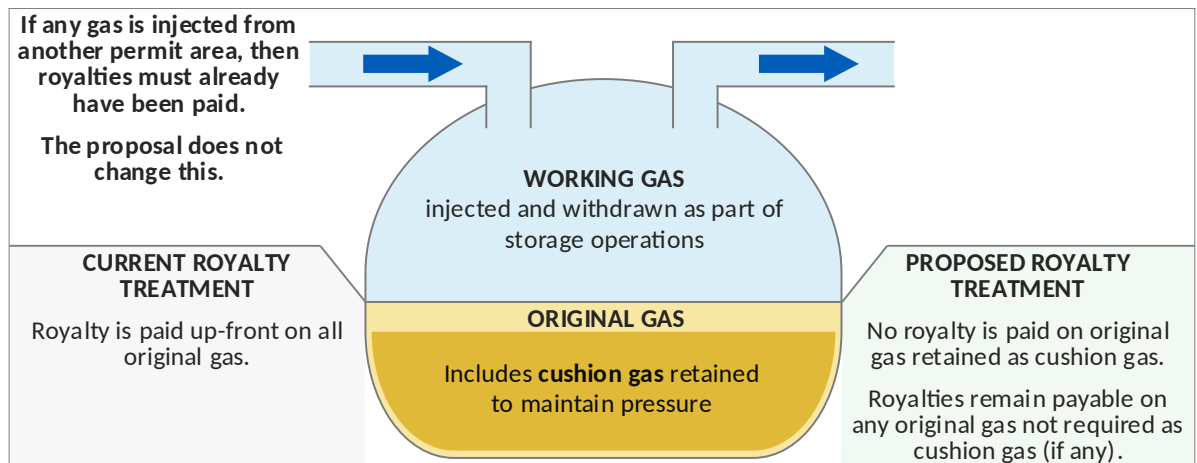
Removing the requirement to pay any royalties on the cushion gas required to operate the facility

25. I consider it to be the role of the Government to do everything it can to incentivise development of new gas storage facilities to support energy security. These are high-cost facilities and because of the current requirements, operators considering gas storage developments may instead choose to direct capital to other projects or to continue conventional production to deplete remaining gas reserves.
26. I recommend that Cabinet remove the requirement for developers of UGS facilities to pay this single upfront royalty on the original gas required for the operation of a UGS facility, which is known as cushion gas. This provides a stronger incentive for them to progress investment decisions for new gas storage facilities.
27. The volume of gas qualifying for this treatment should be limited to the amount of cushion gas that is reasonably necessary to maintain the minimum pressure needed within the reservoir to inject, manage and withdraw the active working gas effectively. Currently, the amount and value of the original gas subject to royalties is determined by an independent expert. This change will also require the expert to determine the proportion of a UGS facility's original gas that is cushion gas and not subject to royalties.
28. Any original gas in excess of the volume required as cushion gas would remain subject to royalties. Such gas should either be extracted before a UGS permit is granted or be subject to a requirement that royalties on this amount should be paid when the permit is issued.

⁵ Gas Working Group (2025) *Final report and recommended actions*, p. 6.

⁶ The estimated royalty amount has been determined by multiplying official 2025 gas reserve figures (provided by the potential developers) by the sales price estimate of \$10/GJ. This is the midpoint of the sales price estimate of \$8-12/GJ, which is a wholesale price based on current gas sales agreements approved by the regulator.

29. This approach is also more in line with how royalties for underground gas storage facilities are treated internationally.⁷ Other jurisdictions view the cushion gas as an operational inventory, rather than an economically recoverable resource upon which royalties are owed. If a UGS is established, it is unlikely that the cushion gas will ever be extracted. However, this proposed change does not entirely remove the possibility that some gas used to create the cushion will ultimately be extracted, without any royalties paid to the Crown.
30. This change only affects the royalties due on original gas required to form the cushion that is present in the reservoir at the time the permit is approved (see diagram below). Royalties will still be paid on:
- any gas that was mined in another permit area that is injected into the facility;
 - any liquid petroleum that is extracted as part of the operation of the facility;⁸
 - original gas that is determined not to be cushion gas.



31. I have also considered allowing royalty obligations to be spread over time to reduce the upfront burden to developers. However, it is my view that this is not a large enough incentive to encourage development of additional gas storage capacity that is so critical to our energy security.

Risks

32. Removing royalties to incentivise development has not been done before. It would introduce inequity between gas storage developers and conventional petroleum operators, who are required to pay royalties on gas as it is produced. It may also be considered to be inconsistent with one of the purposes of the

⁷ Dedicated royalty regimes for native cushion gas appear uncommon internationally; identified jurisdictions such as the United States and the United Kingdom generally address cushion gas through production-based petroleum fiscal regimes and the tax treatments as part of the storage facility.

⁸ As provided under Regulation 15(4).

Crown Minerals Act 1991, which sets out that the purpose of mining is to ensure a fair financial return to the Crown for its minerals.⁹

33. Encouraging new gas storage developments by removing royalty obligations may also be seen as raising fairness issues in relation to the developers of the Ahuroa facility, who paid the royalty on all original gas upfront, for being the first to develop an underground gas storage facility.
34. Removing the royalty obligation on all original gas would introduce a new risk that gas storage developers might 'game' the system and apply to convert fields with much greater volumes of gas than the current proposals, in order to maximise the volume of gas upon which a royalty is not owed. However, I consider this risk is mitigated by limiting the removal of royalty obligation to only the cushion gas – as outlined at paragraphs 26. to 28..

Implementation

35. It is intended that Cabinet will make decisions on the final amendments to the royalty regulations in mid-October 2026. This will enable the amendment to be gazetted and come into force in November 2026.
36. The proposal in this paper removes the need for the Ministry of Business, Innovation and Employment (MBIE) to collect the royalty payment on original gas when approving a petroleum mining permit application for an underground gas storage facility, unless there is excess original gas above what is required for the gas cushion. If there is only cushion gas, MBIE will not collect a royalty.
37. Given the challenges currently facing New Zealand's energy system, I am satisfied that this measure is necessary at this time. However, it should be regarded as a temporary response to current energy security and market conditions. I would expect the need for the measure to be reassessed periodically, and for its continued application to be considered alongside any future review of royalty settings and the broader petroleum regulatory framework, as well as relevant international obligations.

Cost-of-living Implications

38. There are no immediate or direct cost-of-living implications arising from the proposals in this paper.

Financial Implications

39. There will be financial implications arising from the proposal in this paper – if new UGS developments proceed. Removing the royalty obligation on the original gas contained in the reservoir, limited to the gas required for the operation of a UGS facility, may result in \$5–6 million in foregone royalties to the Crown.
40. Because the royalty revenue is included in the fiscal forecasts, forgoing this revenue will impact the Government's fiscal indicators (OBEGALx and net core Crown debt), unless there is a funding source for it. Given its small size, I

⁹ Underground gas storage operations are included in the definition of mining in the Crown Minerals Act 1991.

recommend that the foregone revenue is charged against the Between-Budget Contingency.

41. It is currently estimated that the financial impact will occur over the next two to three years, however this is not certain. It is dependent on when UGS facilities eventuate, however this is unknown as no permit applications have been made.

Legislative Implications

42. Changes to the Crown Minerals (Royalties for Petroleum) Regulations 2013 are required to implement the proposals in this paper.

International obligations

43. Legal professional privilege

[Redacted text block]

44. International relations

[Redacted text block]

Impact Analysis

Regulatory Analysis Summary

45. The panel considers that the attached Regulatory Analysis Summary (RAS) partially meets the Quality Assurance criteria. Limitations in the evidence base, consultation, and consideration of alternative options reduce confidence in some conclusions. However, these limitations are identified and do not prevent the RAS from providing sufficient information to support informed decision-making.

Climate Implications of Policy Assessment

46. The Climate Implications of Policy Assessment (CIPA) team at the Ministry for Cities, Environment, Regions and Transport has been consulted and confirms that CIPA requirements do not apply to this policy proposal, as the thresholds for significance are not met. The proposal recommends amending the royalty regulations to remove the need to provide royalty payments in order to support

the development of underground gas storage facilities. The proposal is intended to provide greater flexibility for the timing for when gas can be used to ensure it is available when needed. The emissions impact of this proposal includes minor operational emissions (such as flaring and operation of compressors), and changes in the timing of the combustion of natural gas.

47. The primary effect of additional gas storage would be to shift the timing of emissions impacts, as such the proposal is not expected to materially increase or reduce the expected emissions or result in changes in gas supply from New Zealand's current reserves.

Population Implications

48. There are no population implications arising from this paper.

Human Rights

49. There are no human rights implications arising from this paper.

Use of external Resources

50. No external resources were used in the development of policy advice contained in this paper.

Consultation

51. Officials carried out targeted engagement with the sector, including potential developers of underground gas storage projects, and with all eight iwi of Taranaki on an earlier policy proposal to encourage gas storage developments by introducing flexibility to the timing of the royalty payment on original gas. Officials spoke to the industry body Energy Resources Aotearoa, had conversations with three potential developers, and communicated via email with additional developers. A joint online hui was held with interested iwi from the Taranaki region, as all known gas storage proposals are in the Taranaki region.
52. Industry stakeholders were generally supportive of measures to reduce the upfront royalty burden, though some considered the initial proposed changes did not go far enough. Industry also raised additional barriers to gas storage developments that cannot be addressed by changes to the royalty regulations.
53. Iwi raised broader concerns about the wider regulatory framework for underground gas storage activities but were not opposed to allowing the royalty payment to be spread over time. Iwi noted that as royalty revenue is not shared with iwi, there would be little to no benefit to iwi from the earlier policy proposal.
54. MBIE consulted with the following agencies in the development of the proposal outlined in this paper: the Treasury, the Ministry of Foreign Affairs and Trade, Ministry for Cities, Environment, Regions and Transport, and the Ministry for Regulation. The Department of Prime Minister and Cabinet was informed.

Communications

55. Subject to Cabinet approval of these proposals, officials will inform potential gas storage developers to allow them to progress investment decisions with confidence.
56. Public communications will make it clear that this is measure in response to strengthening New Zealand's energy security and that the continued need for this measure will be considered as part of future reviews of the regulatory framework for petroleum.

Proactive Release

57. I intend to release this paper with appropriate redactions within 30 business days of Cabinet's decision.

Recommendations

The Minister for Resources recommends that the Committee:

- 1 **note** that additional underground gas storage facilities would support flexibility of gas supply, especially as we move towards a scenario where Methanex exits the market;
- 2 **note** that the royalty regulations currently require an upfront royalty payment, and that industry and potential developers indicate this is acting as a disincentive to new gas storage development;
- 3 **agree** to amend the Crown Minerals (Royalties for Petroleum) Regulations 2013 so that operators of underground storage facilities are not required to pay royalties on volumes of original gas that are required to maintain the minimum pressure needed within the reservoir to inject, manage and withdraw the active working gas effectively (cushion gas);
- 4 **agree** that, for any underground gas storage facility, any original gas within the reservoir that exceeds the volume required for cushion gas remains subject to royalties;
- 5 **note** the following changes as a result of the decision in recommendation 3 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	\$m – increase/(decrease)				
	2026/27	2027/28	2028/29	2029/30	2030/31 & Outyears
Revenue					
Crown Revenue and Receipts:					
Other sovereign revenue	(2.000)	(2.000)	(2.000)	-	-
Total Operating	2.000	2.000	2.000	-	-

- 6 **agree** that the reduction in Crown and other sovereign revenue in recommendation 5 above be charged against the between-Budget contingency established as part of Budget 2026;
- 7 **authorise** the Minister for Resources to issue drafting instructions to the Parliamentary Counsel Office to give effect to the policy proposals in this paper;
- 8 **authorise** the Minister for Resources to make additional policy decisions and minor or technical changes to the policy decisions in this paper, consistent with the policy intent, on issues that arise in drafting the regulations.

Authorised for lodgement

Hon Shane Jones
Minister for Resources