

17 April 2024

Hon Simeon Brown
Minister of Energy
Minister of Transport

Key messages:

- ***we welcome the clear and consistent messaging emerging from the Government based on a back-to-basics approach focusing on security and affordability with emissions dealt with by the Emissions Trading Scheme (ETS);***
- ***potential risks will need persistent and consistent management and coherent policies across energy, transport, resources, infrastructure and climate portfolios, nested into a wider economic strategy to 'grow to zero';***
- ***our electricity system is precarious. Gas deliverability and thermal plant availability is a growing and significant concern for overall energy security and resilience;***
- *the current gas shortages means **demand goes unmet** with risks to the competitiveness of our export sector and overall economic recovery;*
- *the risks associated with Winter'24 are 'baked-in' but there is still a chance that more gas could become available to help Winter'25 under the right regulatory settings – but **only if made urgently;***
- ***we support a neutral approach to the introduction of new technologies.*** *Electrifying transport is a long game; fuel technologies and efficiencies are also capable of reducing transport emissions; and*
- ***pricing of fuels and electricity will continue to drive investment decisions and consumer choices*** so it is essential that market competition is fostered without overloading markets with onerous regulation and compliance costs.

Who Are We: Our organisational Strategy and How We Can Help You

1. Energy Resources Aotearoa has been progressively pivoting to represent the full energy value chain through and beyond the low emissions journey. Our membership is growing and we now represent over 40 members covering the production, transport, and sale of oil and gas, electricity, refined fuels, and future fuels.
2. We provide a strategic sector perspective on energy issues and their adjacent portfolios. We will give you access to insights from energy sector participants. We will work with you and your departments constructively to deliver pragmatic responses to the challenges of your energy and transport portfolios.

Key Messages – Further Detail

We welcome the clear and consistent messaging emerging from the Government

3. The energy and resources sectors have welcomed many of the early messages from this Government with its back-to-basics policy approach. The last six years have been a worrying time for the industry and for New Zealand's energy security. Some of the previous government's decisions will leave a permanent legacy of underinvestment. The sector is heartened to hear you speak about energy policy in a straightforward manner and that 'keeping the lights on' is one of the Government's top priorities.
4. We appreciate your principled, market-led policy approach of no subsidies, mandates or bans; and the call on industry to provide the risk capital for investments, technologies and answers to our energy trilemma. But these must be supported by coherent policies across the energy value chain.
5. The ETS has been correctly identified by the Government as the main tool for reducing net emissions. While not perfect, New Zealand's ETS system is one of the best in the world and it needs to be governed by stable and predictable policy settings. The recent indecision and judicial action have created untenable insecurity for ETS participants. Policies that foreclose options (likely forestry), or overly incentivise options (like subsidies or mandates), will increase the overall cost of the transition. In that light, we see complementary measures as a last resort, because they distort incentives and simply shift emissions to elsewhere in the economy.

The need for policy coherence across portfolios

6. Good energy policy, focused on security and affordability, requires integration across other related portfolios to give consideration to the third arm of the energy trilemma – sustainability. That requires consistent, integrated policy that provides for a predictable and stable investment platform.

7. It is important that gas is not left out of this picture. The move to electrify everything, especially in a climate that produces more severe weather events, is going to create a more volatile system. Climate policies will need to be consistent over time and acknowledge the ongoing role of gas and fuel (including green versions of these in years to come) to produce the needed stabilising effects for the energy system.

Energy Policy Issues

Good energy policy settings focus on affordability and security of supply

8. With the Fast-track Approvals bill currently in the House, we are anticipating robust debate through Select Committee stage. This legislation is welcomed as likely providing a discontinuity from the period of considerable development inertia suffered over the past decade or more.
9. However, potential risks will need persistent and consistent management. It is important to note that consenting of energy infrastructure – while a critical building block to an efficient, well-functioning market – shouldn't be seen as a substitute for sound energy policy. The market looks for policy settings that provide for the secure and reliable supply of energy that is affordable (in other words at prices that reflect costs in a workably competitive market). This in turn needs to be nested within a wider policy ecosystem of well-functioning foreign direct investment settings, labour market and skills development settings, and capital markets. Only when these factors align, and the economy is growing sufficiently to increase demand, will projects shift off the planning desk into construction.
10. ElectrifyNZ and the commitment to a network of EV chargers (10,000 by 2030) need to be seen in this context. Doing so will mitigate the risk of policy failure seen under the previous government, where it persistently over-promised and under-delivered on the outcomes intended from infrastructure build.

Gas availability is a growing and significant concern

11. A key risk to energy security is the reducing availability of natural gas. Our gas market is in decline. Gas reserves are lower than expected and the sector is on a knife edge. Attached as Appendix One is our assessment of the most likely production outcome for this year, relative to MBIE official data from 2023 which we believe indicates the seriousness of the situation, and the need for urgent action. MBIE has recently received updated reserves and production data from the operators and we suggest that you request a year-on-year comparison on the expectation that it will confirm our pessimistic outlook.

12. There are severe investment confidence issues that will require urgent legislation changes made under urgency and persistent international marketing and advocacy.
13. The next few winters are going to illuminate cracks in the system. We understand that you may have been advised that we have sufficient gas supply coverage for this winter, however we are less sanguine for the following reasons:
 - a) we are unclear of the extent of flexibility available (including gas storage in Auhuroa) should demand circumstances change to place higher requirements on gas deliverability (for example, a particularly severe cold snap);
 - b) our aging thermal generation fleet and state of our power generation infrastructure creates its own set of risks;
 - c) the end-of-field life at our main offshore fields means that they are no longer able to provide the flexibility or cover that once they used to¹; and
 - d) Methanex already has a non-trivial level of unmet demand (with Waitara Valley mothballed and one of its two trains at Motonui offline) and is no longer able to be called on to cycle back production and divert gas into the electricity market.²
14. Put plainly, natural gas is needed to keep the lights on and will be for some decades yet. Thermal back up (gas and coal) have provided secure energy during winters when the weather has not played in our favour. This year, the risks of running low are nigh impossible to mitigate from a policy and governance perspective. We are aware of contracts with Tiwai Aluminium smelter that will provide an additional 70MW of back up. That situation is not guaranteed for next year. Now is the time to make fit-for-purpose regulatory settings that provide sufficient longevity for the gas sector to help get New Zealand through the next ten years.
15. Renewable electricity projects continue to benefit from thermal back up. There is wide agreement that further investment in additional gas peaking capacity is needed to ensure the stability of the grid. See Appendix Two for a list of sources that support this.

¹ Gas deliverability will at some time in the near future reach practical limitations such as the minimal throughput for stable operation of gas facilities (this means when gas levels reach the minimum threshold the plant will require additional investment or be shut down).

² Methanex will be taking decisions next month that could be critical to the economy and the functioning of the gas sector and we note its global CEO is in country in June.

The small but growing role of 'green' gases

16. New waste-to-energy projects (e.g., [Powerco's two initiatives in the Manawatu](#), and Kaipara District Council's interest in a [waste to energy plant](#)) can help reduce emissions and prolong the life of gas pipelines, especially for residential users on low pressure networks. It is a sensible use of waste materials and eases demand pressure on the electricity grid.
17. This welcome progress (and the recent announcement to develop a waste to energy plant in Christchurch³) shows the folly of two things, being:
 - a) requests for mandates and/or subsidies (which increase the cost to end consumers to make otherwise uneconomic plants commercial sooner than they would otherwise be); and
 - b) options to limit new gas connections and/or the so-called stranding asset risk.⁴
18. These plants could eventually scale up to the point where they effectively decarbonise the equivalent of our domestic gas use (~4PJ pa), leaving natural gas to find its next highest value use in hard to abate industrial processes.

The new electricity framework

19. We have joined the sector-wide electricity accord. This is an industry agreement that will help deliver durable policy predictability as a quid pro quo to investment. The accord is one way to build back the much-needed investment confidence. On the other hand, interventionist policies such as bans can deter confidence and investment, even if well-meaning.

We support a neutral approach to the introduction of new technologies

20. Electrifying New Zealand will be an incredibly big challenge, especially as our electricity generation assets are becoming increasingly weather dependent and user demand grows.
21. It will be important to continue the technology agnostic approach to government support. We are at a critical turning point where many potential technologies are in a race to help decarbonise the global economy. New Zealand has typically been an innovator but a technology taker. Renewable electricity is already abundant

³ See <https://www.ecogas.co.nz/news/firstgas-group-and-ecogas-to-turn-biogas-into-renewable-gas-to-inject-into-gas-network>.

⁴ In any case, the public policy interest for the Government to be concerned with the so-called risk of asset stranding is low as this is a risk generally borne by private sector shareholders and/or owners and the Crown does not generally interest itself in what happens to privately owned assets once they come to the end of their useful life (the countryside is littered with abandoned dairy factories, for example).

here compared with other countries and it would be extremely hazardous to reduce the mix of fossil fuels in our economy too soon.

22. Energy technologies (fuels, vectors, and products for end users) are all important in supporting New Zealand to 'grow to zero'. While energy forms the backbone of the economy, in itself it does not produce value. We need all potential solutions in the mix to find the most productive and economic combination.
23. By way of an example, we are aware of peak electricity capacity pricing products that are ready to 'go live' if the regulatory approvals were granted. Such products would not be ready for consumers this winter but could certainly help with load pressure for winter '25. These sorts of innovative products would be elegant, market-led solutions to using our electricity more efficiently and could reduce the risk of black-outs. We have written to your colleague, Hon Andrew Bayly (Minister of Commerce and Consumer Affairs) and copied you into this correspondence which explains the opportunity in more detail. We are happy to discuss this further with you and your officials if that would be of interest to you.

Pricing of electricity and fuels will continue to drive investment decisions and consumer choices

24. The reality is that energy prices are likely to continue to rise⁵. However, there are opportunities to bring down price premiums (should they exist) if the policy settings can better incentivise competitive efficiencies and innovation. More natural gas can place downward pressure on prices. While on your policy periphery it is important you do not lose sight of critical issues to achieve this (e.g., the openness to foreign direct investment, access to skills, the adoption and adaptation of new technology as it emerges, international developments and the R&D framework).

Energy strategy / gas transition plan

25. We think an energy strategy - if sufficiently strategic - could provide an opportunity for the Government to reaffirm a commitment to a market-led energy system that can dynamically manage trade-offs between energy affordability, reliability and sustainability (within the parameters of the ETS) through the energy transition.
26. We distinguish here between policy certainty in the undesirable 'hardwiring' sense, which sacrifices flexibility, versus the more desirable sense of providing clarity,

⁵ Those who claim that energy prices will fall either omit the costs of transmission and distribution required to massively upgrade our electricity networks, assume aggressive reductions in the costs of new low carbon technology or aggressive increases in the costs of refined and fossil fuels, or expect the price of carbon to rise dramatically. As an interesting aside, if technology costs do fall dramatically (this would unequivocally be a good thing), this would make the urgency to decarbonise now a higher cost pathway.

predictability and consistency in the principles that will guide policy through time. A slim document should be sufficient to achieve this. The sector is keen to have it available as soon as possible.

27. With respect to the gas transition plan, we see little merit in such a document though there are some useful elements which would warrant from further attention (such as carbon capture and storage, and the need for gas storage).

Carbon Capture, Utilisation and Storage

28. We understand MBIE is preparing a regulatory regime for CCUS and that you may have some choices about the design. We are interested in learning more about how this work is progressing.
29. We believe a bespoke policy package is a more efficient approach than the proposed carve-out approach to existing legislation (including the RMA), but there are benefits and trade-offs with either option. We would be happy to provide further advice on this if helpful.
30. New Zealand is already a decade behind other countries (the UK is issuing permits, and there are other international examples). CCUS can support the Government's priorities to reach net zero by 2050 and we would expect it to feature in the second emissions reduction plan. Removing regulatory barriers to investment in this technology should be a priority.

Transport Policy Issues

The draft GPS land transport 2024-34

31. We have submitted our views on the draft GPS land transport 2024-34. Overall, we support the proposals for investment and prioritisation.
32. We encourage the Government to keep strong oversight and monitoring of the vehicle market trends and the influence of fuel and RUC pricing on purchase decisions. There is a risk that the Electric Vehicle (EV) market does not make the predicted market breakthroughs⁶. It would be devastating for the economy if too much policy emphasis was placed on EVs if hybrid and fuel cell vehicles proliferate the market in coming years, or if technology adoption occurs unevenly.
33. A focus on the affordability limb of the energy trilemma should be maintained. We saw this clearly in 2023 with the withdrawal and abandonment of the biofuels mandate, and sustainable aviation fuel (SAF) mandate consultation.

⁶ The EV market has shown recent signs of difficulty with reports of dealers dumping stock and cancelling orders. The resale market is showing signs of rapid depreciation which is putting off buyers of new EVs.

34. Fuels, especially transport fuels, are increasingly lower emitting and efficient, and we see those technologies as very important features of our economy in the next two decades at least.
35. Fuel pricing will continue to be an important feature in consumer vehicle purchasing decisions. Last year a regulatory backstop was introduced to the wholesale fuel importing industry that could trigger an inquiry and result in Minister-approved price-setting, but the backstop is not intended to ever be used. Such a regulatory threat is poor public policy as it creates unnecessary uncertainty for investors and deters the much-needed investment we require. Too much monitoring and regulation of fuel prices could cause our fuel supplies to be less secure, and less competitive.
36. The changes in Fuel Excise Duty (FED) and Road User Charges (RUC) systems will create new incentives in the new and used vehicle markets. A lot of the variance we see in fuel pricing occurs because of differences in business models and pricing methodologies, also retail level competition which the Fuel Industry Act cannot influence.

Minimum stockholding obligation

37. We wrote to you about the Minimum Stockholding Obligation and understand that responsibility for this policy issue has been transferred to the Hon Shane Jones under his Associate Energy delegation.
38. We remain concerned that this will impact the fuel industry this year when it comes into force. The policy package includes overly onerous compliance measures and will increase the costs of supplying fuel. There is an opportunity to weave a review of the policy package into the wider study of fuel security. While now under the responsibility of your Ministerial colleague, we encourage a consistent approach with other energy policy settings so that those continuing to use petrol are not unfairly compromised by the rising costs of supplying fuel.

Sustainable aviation fuels

39. AirNZ is chairing a SAF working group as part of Sustainable Aviation Aotearoa, established under the previous government. We are concerned that this group has been selected to favour a mandate option. This will likely be paired with a subsidy package. These policies would become entrenched and distort market incentives. There are no regulatory barriers to prevent airlines purchasing SAF today, in fact AirNZ has this week announced its biggest purchase of SAF to date. However, for domestic production of SAF, there are some areas of regulation in other portfolios (e.g., forestry) that will need updating or aligning.

40. With Channel Infrastructure and Mobil being members we have a strong interest in the development of robust future SAF policy settings and would welcome involvement in the appropriate policy setting fora.

Wider Energy Adjacent Organisations and Committees

41. I have been appointed to the Board of the World Energy Council in an interim capacity where I will be helping facilitate the 26th World Energy Congress Ministerial Roundtable on the week of 22nd April. I understand that you will not be attending but would be happy to hear your views ahead of time so they can be incorporated into the discussion and final communique.
42. The Oil Pollution Advisory Committee (OPAC) is a statutory committee appointed by the Minister of Transport under Section 282 of the Maritime Transport Act (1994). I would like to be considered for a role on that committee. We have previously been a member, but under the previous government this was downgraded to an observer role. More direct participation would be befitting of a revitalised gas sector.
43. I have also been nominated for the Nominating Committee of the Climate Change Commission with decisions pending.

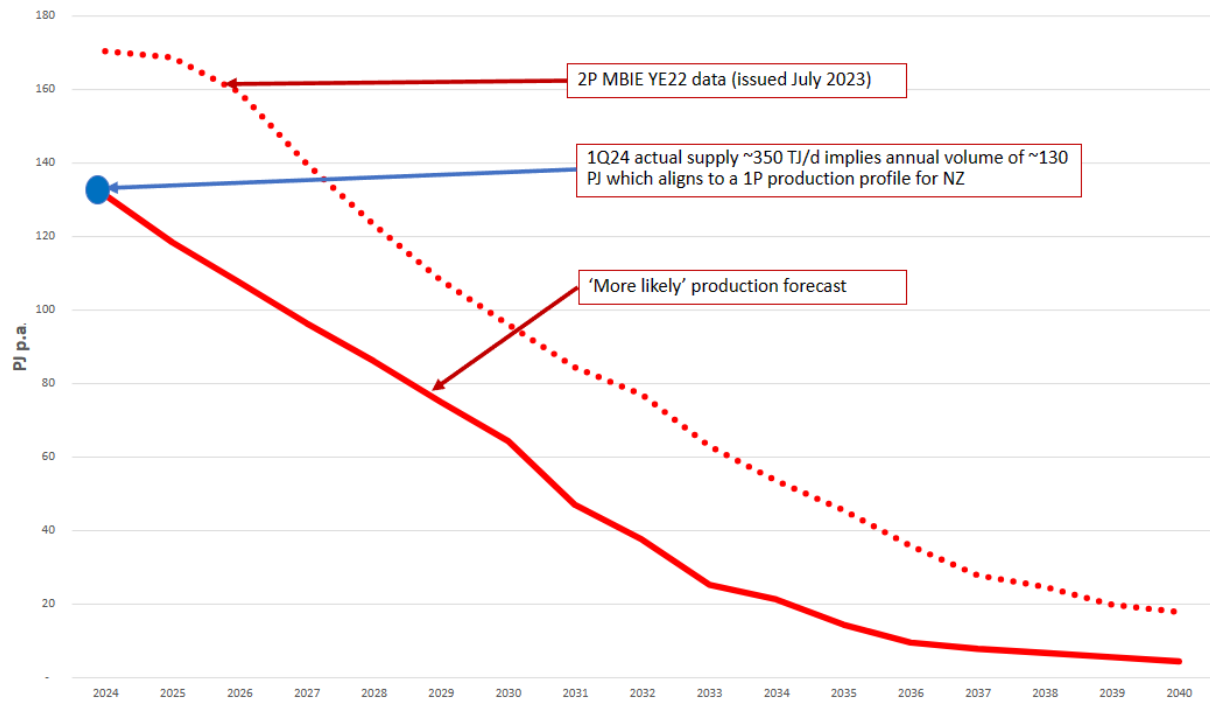
Attachments

- APPENDIX ONE: New Zealand gas supply scenarios
- APPENDIX TWO: The varying views on future electricity demand, as well as the need for new thermal fast-start capacity

cc: Hon Shane Jones
Minister of Resources
Associate Minister of Energy

Cc: Hon Simon Watts
Minister for Climate Change

APPENDIX ONE: New Zealand Gas Supply Scenarios



APPENDIX TWO: The varying views on future electricity demand, as well as the need for new thermal fast-start capacity

Date	Report	Total electricity demand	New thermal peaking capacity
May 2023	Concept Consulting's report for the Electricity Authority ⁷	50 TWh in 2032	None, at least until 2032
Apr 2023	EnergyLink's Role of Gas in Electricity and Industry ⁸ Low demand and high demand cases (note these only run to 2038)	Low demand: 46 TWh in 2038 High demand: 54 TWh in 2038	Low demand: 200 MW by 2035 High demand: 320 MW by 2035
Oct 2022	BCG's The Future is Electric ⁹ Preferred pathway (Smart System Evolution)	54 TWh in 2030 77 TWh in 2050	200 MW by 2030 400 MW by 2040 600 MW by 2050
May 2021	BusinessNZ Energy Council's TimesNZ 2.0 ¹⁰ Kea and Tui scenarios	Kea: 45 TWh in 2030 75 TWh in 2050 Tui: 54 TWh in 2030 83 TWh in 2050	Kea: 200 MW by 2030 1,830 MW by 2050 Tui: 400 MW by 2030 1,770 MW by 2050
May 2021	Climate Change Commission's <i>Inaia Tonu Nei</i> ¹¹ Demonstration pathway	50 TWh in 2035 66 TWh in 2050	200 MW by 2035
Mar 2020	Transpower's <i>Whakamana I Te Mauri Hiko</i> base case ¹²	55 TWh in 2035 70 TWh in 2050	400 MW by 2035
Jul 2019	MBIE's Electricity Demand and Generation Scenarios ¹³ Reference and disruptive cases	Reference: 49 TWh in 2035 / 57 TWh in 2050 Disruptive: 55 TWh in 2035 / 71 TWh in 2050	Reference: 490 MW by 2035 / 930 MW by 2050 Disruptive: 940 MW by 2035 / 1,340 MW by 2050

⁷ https://www.ea.govt.nz/documents/3147/Appendix_C_-_Concept_Consulting.pdf

⁸ <https://www.energyresources.org.nz/dmsdocument/243>

⁹ <https://www.bcg.com/publications/2022/climate-change-in-new-zealand>

¹⁰ <https://times.bec.org.nz/>

¹¹ <https://www.climatecommission.govt.nz/public/Inaia-tonu-nei-a-low-emissions-future-for-Aotearoa/Inaia-tonu-nei-a-low-emissions-future-for-Aotearoa.pdf>

¹² See Transpower's *Whakamana I Te Mauri Hiko* report, available at <https://tpow-corp-production.s3.ap-southeast-2.amazonaws.com/public/publications/resources/TP%20Whakamana%20i%20Te%20Mauri%20Hiko.pdf?VersionId=FljQmfxCk6MZ9mlvpNws63xFEBXwhX7f>

¹³ <https://www.mbie.govt.nz/dmsdocument/5977-electricity-demand-and-generation-scenarios-report-2019-pdf> (note this is currently being updated, but at time of writing, the 2019 EDGS is the most recent report.)