



# Refocusing our energy future

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Post election briefing to the incoming Government



## Summary

New Zealand is blessed with an abundance of natural energy resources, from which it can build a thriving economy that supports jobs, businesses, and community well-being. These include wind, sun, geothermal, natural gas, oil, hydro, and more. Energy Resources Aotearoa is proud to represent the energy resources value chain in its entirety.

However, a cumulative tide of negative policy signals and regulatory uncertainty has significantly undermined investment confidence in the energy sector. This has created the very real prospect of energy shortfalls in winter 2024, and a costly and disorderly transition to a low emissions future.

But if urgent action is taken to reinstitute an investment friendly policy environment, these risks can be managed, and New Zealand can capture the opportunities of a vibrant and growing energy sector. New Zealand's energy policy needs to get 'back to basics'.

To that end, we recommend you initiate a programme of work to restore investor confidence. Our recommendations below include both urgent and longer term actions to deliver affordable and reliable energy, lower emissions, and ultimately support a growing economy.

# Key recommendations

## 100-day priorities

### 'Easy wins' to restore energy sector investment confidence



- Drop the target of 100% renewable electricity by 2030
- Rule out further development of the Lake Onslow proposal
- Drop the proposed ban on new thermal baseload electricity generation
- Initiate work to identify and address any other barriers to investment in additional energy storage and flexible fast start generation capacity

### RMA and EEZ Act reform legislative package



- Refocus on managing effects rather than targeting fuel types or technologies
- More timely decision-making processes

### Government-sector collaboration



- Use the Energy Resources Sector Net Zero Accord as a platform for Government collaboration with the wider sector

### Resolving immediate uncertainty around ETS and climate policy



- Specify the Government's expectations around the balance of gross reductions and removals
- Commit to supporting stable and durable settings in the ETS
- Rule out retrospective changes to the treatment of existing forestry in the ETS
- Commit to ongoing industrial allocation linked to the risk of emissions leakage

### Crown Minerals Act legislative package



- Urgently simplify the onerous decommissioning regime
- Restore the promotional purpose of the Act
- Reverse the 2018 offshore oil and gas ban
- Revert to an over the counter permit allocation approach
- Introduce an arbitration mechanism for permit and license holders

## First term priorities

### Restoring New Zealand's energy investment reputation



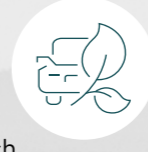
- Further amendments as appropriate to the Crown Minerals Act and associated regimes to embed durable confidence beyond political cycles
- Lead an international trade delegation(s) to promote New Zealand energy investment and innovation
- Restore petroleum and minerals capacity and capability to MBIE and GNS to support timely regulation of petroleum and minerals
- Develop a critical minerals list to reflect the role of rare earth minerals and natural gas in a secure, affordable, low emissions future

### Building energy talent



- Implement the Energy Sector Industry Skills Action Plan
- Establish a Centre for Energy Excellence in Taranaki to support training and development for the national energy sector
- Ensure immigration settings support inflow of highly skilled energy sector workers

### A smarter transport system



- Consider a universal approach to land transport funding that reflects the changing transport sector
- Narrow the National Land Transport Fund to building and maintaining the network
- Consider introducing congestion charging in those urban centres where it makes sense to spread peak infrastructure use

### Unlocking the carbon capture opportunity



- Establish an enabling regulatory framework for carbon capture, utilisation and storage (both point capture and air capture)
- Develop a public-private circular carbon economy road map

### Enduring long-term climate policy settings



- Legislate the maximum volume of unbacked ETS units that can be issued until 2050
- Enable trading of units with credible international carbon markets
- Anchor the ETS price controls to an average of credible international carbon markets and/or trade partners, with the Government purchasing from offshore markets to supply any reserve units
- Return some or all ETS revenue to consumers and households to ensure long term support for carbon pricing

### Enabling future fuels



- Investigate and address any regulatory barriers to uptake of biomethane, hydrogen, and biofuels
- Develop a policy package to support market led uptake of sustainable aviation fuel
- Incorporate low emission fuels derived from carbon capture in the circular carbon economy road map

# Introduction

## The low emissions journey

Energy is a means to an end. We use it to create better lives and wellbeing for people. It underpins everything our households and businesses do. We are fortunate to have renewable energy providing around 44% of our total energy needs, and this share continues to grow as we progressively reduce our energy and transport emissions.

But the low emissions journey is a marathon, not a sprint. Fossil fuels (natural gas and oil) still provide over half of New Zealand's total energy. They support hard to abate sectors like industry and freight, and they provide a critical backup to the renewable electricity system on which we increasingly depend. Our export industries rely on this energy to create well-paid, highly skilled jobs and high value products for the domestic and global market. Retaining existing fossil fuel infrastructure also provides a bridge to new low-emissions fuels, such as biomethane, hydrogen, and liquid biofuels.

The key challenge is aligning the pace of our low emissions journey with our 2050 ambitions, without unnecessarily undermining the economic and social benefits of the energy system. The only way to achieve this is by restoring confidence so that the sector can invest in the full range of solutions we'll need over the coming decades.

## The energy trilemma

We face choices on how to ensure we have energy that is affordable, reliable, and sustainable. This is known as the "energy trilemma" and is globally recognised as the best way to consider the balance required between these three priorities. All are essential, but trade-offs within and across them are inevitable:

- **Energy affordability** – Rising energy costs are putting pressure on New Zealand's wellbeing and international competitiveness. Fossil fuels will become more expensive relative to renewables as the carbon price rises – and this may be exacerbated by other policies that impose costs on fossil fuel providers and users. These rising costs will help to drive emissions reductions, but the question is who bears the costs and when.
- **Energy sustainability** – Our energy and transport systems will need to reduce their emissions to achieve our target of net zero by 2050. A more renewable energy system might require more investment to address intermittency and preserve energy security, with the costs ultimately borne by consumers.

- **Energy security** – New Zealand currently benefits from a diverse energy system, with a mix of electricity, piped gas, bottled gas, and imported liquid fuels all operating on largely separate infrastructure. This provides redundancy against natural disasters and other disruptions. A mix of generation and storage fuels (including gas-fired generation) also ensures electricity is available even in periods of low rainfall, wind, or sun. But this will need to be actively managed as New Zealand increasingly relies on electricity, at the same time as its electricity supply is increasingly dominated by intermittent renewables.

Now more than ever, the new Government faces important choices on policy settings to create jobs and grow the economy in a fair and sustainable way. We also face major choices in developing a pathway to low emissions fuels – including investment in new technology and infrastructure – while continuing to support investment in the energy we need and use today.

## Collaboration can unlock long term, durable solutions

The energy sector can be part of the solution, and we want to help your Government achieve its goals through well-informed choices. There is broad agreement on the key principles and elements that need to be in place. What the sector needs most is predictable, stable, long term policy settings that support investment.

In August 2023, the leading industry associations for the energy and resources sector penned a joint open letter to Energy and Resources Spokespeople across the political spectrum. This laid out a ten point priority plan to create the regulatory and policy environment needed to unlock social, economic, and environmental wellbeing through energy. To read the open letter, click [here](#).

Achieving a balance of the energy trilemma through time will require close co operation between Government, industry, and other stakeholders. To that end, in 2022 we convened the Energy Resources Sector Net Zero Accord, which represents a voluntary commitment from sector participants to play a key role in the low emissions journey. The Accord forms a platform for meaningful cross sector collaboration with Government, in a similar manner to the Construction Accord. It also provides a platform to engage with communities and support ongoing social licence for the sector. Energy Resources Aotearoa has the analytical capability and practical infrastructure already in place to lead the sector's engagement with Government. To read the Accord, click [here](#).

# Policy priorities

## Restoring energy investment confidence

The energy resources sector has been buffeted by a cacophony of negative policy signals that have dampened investment. New Zealand now faces the prospect of a looming energy shortage that imperils energy affordability and reliability, as well as progress toward our emissions reduction targets.

In the electricity sector, unplanned long term thermal electricity generation outages and delays in renewable developments mean our electricity system now has very limited wiggle room ahead of a very tight winter 2024. Given the short runway to winter 2024, some of these market risks are now 'baked in'.

With luck, the risk of energy shortage will not eventuate – but the Government can act now to manage this risk in the short term, and to reduce it over the medium-long term.

We have identified a package of 'quick win' measures to immediately begin restoring investment confidence in the energy sector. This will help New Zealand explore all its opportunities to address its potential energy shortfall – including upstream fuel supply, import and distribution infrastructure, energy storage, electricity generation capacity, and demand response.

## Recommendations

### 100-day priorities

- Drop the target of 100% renewable electricity by 2030
- Rule out further development of the Lake Onslow proposal
- Drop the proposed ban on new thermal baseload electricity generation
- Initiate work to identify and address any other barriers to investment in additional energy storage and flexible fast start generation capacity

### First term priorities

- Lead an international trade delegation(s) to promote New Zealand as an 'all fuels' destination for energy investment and innovation
- Develop a critical minerals list to reflect the role of rare earth minerals and natural gas in a secure, affordable, low emissions future

## Restoring balance to the Crown Minerals regime

Gas reserves recently fell below 10 years' supply, and without new investment to develop these and new resources, this trend will continue. This significantly undermines long term confidence of large gas users, including high value industries and electricity generation.

Gas reserve declines have largely been driven by weakened investment confidence in the energy resources sector. The 2018 ban on new oil and gas exploration outside onshore Taranaki obviously sent a hugely damaging signal to global investors, evidenced by the precipitous decline in permitted acreage since. More recently, changes to the Crown Minerals Act – including onerous decommissioning requirements and the removal of 'promote' from the Act's purpose – have further undermined confidence in the sector's future and willingness to continue investing.

The decommissioning requirements in particular try to eliminate rather than manage risks, and this has resulted in a disproportionate and costly regime. It should be simplified with urgency to restore a balanced, proportionate approach that enables continued investment in the short to medium term. Reversing the oil and gas exploration ban provides an energy security 'safety net' over the longer term. Beyond these, the Government should work closely with the sector to identify other necessary amendments to establish durable investment confidence beyond political cycles.

The measures here would go a long way to restoring balance and ensuring that ongoing investment in upstream oil and gas supply continues for as long as it is required.

## Recommendations

### 100-day priorities

- Pass a Crown Minerals Act amendment bill to:
  - » Urgently simplify the onerous decommissioning regime
  - » Restore the promotional purpose of the Act
  - » Reverse the 2018 offshore oil and gas ban
  - » Revert to a over the counter permit allocation approach
  - » Introduce an arbitration mechanism for permit and license holders

### First term priorities

- Further amendments as appropriate to the Crown Minerals Act and associated regimes to embed durable confidence beyond political cycles
- Lead an international trade delegation(s) to promote New Zealand energy investment and innovation
- Restore petroleum and minerals capacity and capability to MBIE and GNS to support effective and timely promotion and regulation of Crown minerals development
- Develop a critical minerals list to reflect the role of rare earth minerals and natural gas in a secure, affordable, low emissions future

## Toward a smart and efficient transport system

Te Waihanganga (the Infrastructure Commission) estimates New Zealand has a public infrastructure deficit of \$104 billion. In this fiscally constrained environment, addressing this will require smart solutions that leverage the full range of financing, planning, and implementation options. The package of measures we have identified below represent a good starting point from which to continue developing this future transport network.

The transport system also has a wide range of opportunities to reduce emissions. Electrifying the light vehicle fleet will take time, but the carbon price paired with a growing charging network makes this increasingly attractive to drivers. Harder to abate sectors, including heavy freight, aviation, and marine, also have low emission fuel and technology opportunities, but the Government should consider whether it could support these through sensible market based measures or infrastructure investment. While the transition toward lower emissions fuels is underway, it's also important to recognise the sustained role of liquid fossil fuels.

### Recommendations

#### 100-day priorities

- Initiate work toward regional and city deals between central/local government, the private sector, and iwi to drive a predictable pipeline of major transport infrastructure projects

#### First term priorities

- Enable a smarter transport system:
  - » Consider a universal approach to land transport funding that reflects the changing transport sector
  - » Narrow the National Land Transport Fund to building and maintaining the network
  - » Consider introducing congestion charging in those urban centres where it makes sense to spread peak infrastructure use
- Enable future fuels:
  - » Develop a policy package to support a market led uptake of sustainable aviation fuel
  - » Incorporate low emission fuels derived from carbon capture in a circular carbon economy road map (see 'climate and carbon policy')
  - » Investigate and address any regulatory barriers to uptake of biomethane, hydrogen, and biofuels

## Ensuring climate and environmental policy is fit for purpose

New Zealand is committed to reaching net zero long lived emissions by 2050, and the energy sector is on board with this. We believe carbon pricing through the ETS is the most critical policy to achieve this. We also believe New Zealand's focus should be on reducing net emissions, rather than prioritising gross reductions at any cost. Policy should focus on pricing emissions and avoiding fuel – or technology – selective policies that artificially destroy demand.

The ETS is currently buffeted by significant uncertainty, with unresolved questions about the intended balance between gross reductions and offsets; any corresponding limits or controls on the use of forestry offsets; the

treatment of other offsets including geological carbon capture; and the long term approach to industrial allocation. Likewise, large scale reforms to the resource management regime have introduced significant new complexity and uncertainty that could slow investment in new renewable energy.

We also recommend considering how best to allocate revenue from the ETS. We suggest some or all of this could be returned to consumers and households, as this would ensure enduring support for the ETS even as the carbon price rises.

Our recommendations in this space prioritise long term, durable, predictable policy settings – these are essential to support the long term investments that will be required over the coming decades.

### Recommendations

#### 100-day priorities

- Resolve immediate uncertainty around ETS and climate policy:
  - » Specify the Government's expectations around the balance of gross reductions and removals
  - » Commit to supporting stable and durable settings in the ETS
  - » Rule out retrospective changes to the treatment of existing forestry in the ETS
  - » Commit to ongoing industrial allocation linked to the risk of emissions leakage.
- Reform the RMA and EEZ Act
  - » Refocus on managing effects rather than targeting fuel types or technologies
  - » More timely decision-making processes

#### First term priorities

- Enable carbon capture, utilisation, and storage (CCUS):
  - » Establish an enabling regulatory framework for CCUS
  - » Develop a public-private circular carbon economy road map
- Embed enduring long-term ETS settings:
  - » Legislate the maximum volume of unbacked ETS units that can be issued until 2050
  - » Enable trading of units with credible international carbon markets
  - » Index the ETS price controls to credible international carbon markets and/or trade partners
  - » Consider returning some or all ETS revenue to consumers and households to ensure long term support for carbon pricing

### Building energy's talent pipeline

The low emissions journey requires a once in a generation investment in new infrastructure to support energy generation, transmission, distribution, and use. Delivering this scale and breadth of investment will depend on access to a highly skilled workforce pipeline, across a wide range of fields and specialisations. Our education and immigration system settings will need to be optimised to deliver a step change in the number and quality of skilled energy tradespeople – and it will need to do so at the same time as global demand for these skills will rise as the world embarks on the same low emissions journey.

We play a central role in attracting, retaining, and developing the energy workforce – we invite the Government to work with us to build on our success to date.

### Recommendations

#### First term priorities

- Implement the Energy Sector Industry Skills Action Plan
- Establish a Centre for Energy Excellence in Taranaki to support training and development for the national energy sector (both renewable and non renewable energy)
- Ensure immigration settings support inflow of highly skilled energy sector workers



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#### Energy Skills

- Our programme to develop the skills needed by the energy industry.
- [energyskills.co.nz](http://energyskills.co.nz)
  - [facebook.com/EnergySkillsAssociation.nz](https://facebook.com/EnergySkillsAssociation.nz)

#### EnergyMix

- Our educational website explaining energy issues to the general public.
- [energymix.co.nz](http://energymix.co.nz)

#### Energy Voices

- Our educational social media campaign raising awareness on the importance of natural gas and a balanced energy system.
- [energyvoices.nz](http://energyvoices.nz)
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