Energy Resources Aotearoa
POWERING A BETTER NEW ZEALAND TOGETHER

energyresources.org.nz
energyskills.org.nz
energymix.co.nz
PO Box 25259, Wellington 6140

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Ministry of Business, Innovation and Employment (MBIE)
via email: energystrategy@mbie.govt.nz

Cover note – Energy Resources Aotearoa submissions on *Advancing New Zealand's Energy Transition* consultation package

Introduction

1. Energy Resources Aotearoa is New Zealand's peak energy sector advocacy organisation. Our purpose is to enable constructive collaboration across the energy sector through and beyond New Zealand's transition to net zero carbon emissions in 2050.

2. This cover note provides some high-level contextual commentary on the *Advancing New Zealand's Energy Transition* on package, including our preferred approach to a National Energy Strategy.

3. This cover note should be read in tandem with our November 2023 submissions on the following consultation papers:

    a Gas Transition Issues Paper;

    b Measures for transition to an expanded and highly renewable electricity system;

    c Implementing a ban on new fossil-fuelled baseload electricity generation;

    d Interim Hydrogen Roadmap; and

    e Developing a Regulatory Framework for Offshore Renewable Energy.

Comment

The process following this consultation will be subject to decisions by the incoming Government

4. At the time of writing, the shape and composition of the incoming Government is yet to be finalised (special votes will be announced after the closing date of this consultation process, and formation of a government will come sometime thereafter). We note that whether and how each component of the *Advancing*

New Zealand's Energy Transition package will proceed is subject to consideration by the new Government and Minister.

5. Our expectation, based on preliminary results, is that the incoming Government will take a markedly different approach to energy policy that we would characterise as 'back to basics' – or a rebalancing of emphasis toward the security and affordability limbs of the energy trilemma. Its approach is likely to be underpinned by a conviction that New Zealand can 'grow to zero' – that is, it can (and should) achieve its net zero emissions targets while continuing to grow its economy based on secure and affordable energy. This can be achieved via policy settings that create a much more enabling and encouraging investment climate.

6. Of course, we are eager to engage frequently with officials and the new Government as decisions are made on how to proceed. We have welcomed ongoing engagement to date from officials working on each of the consultation package's constituent papers.

New Zealand is not on track for a successful, orderly transition

7. Both 2021 and 2022 demonstrated that meeting New Zealand's peak electricity demand is becoming increasingly challenging. New Zealand cannot continue to rely on the goodwill and presumed flexibility of large commercial gas customers to help keep the lights on – nor can it continue to rely on good fortune (not every year will be a wet year).

8. High hydro inflows in 2022/23, plus the scheduled outage of Methanex methanol plants, meant that in 2023 New Zealand had sufficient gas to meet electricity generation demand. This situation is not sustainable and New Zealand faces a deteriorating level of energy security if proactive measures are not taken.

9. The risk factors for an energy crisis are beginning to mount up, with several critical unplanned electricity generation capacity outages, a growing share of intermittent generation, and significantly dented investment confidence in upstream gas supply. Without meaningful action to restore supportive and stable policy and regulatory settings, these risks could begin to materialise. Any significant electricity outages or other system failures would seriously undermine the public's confidence in the sector and thereby slow the journey toward a net zero emissions economy.

10. As our suite of policy submissions makes clear, we strongly support a substantive shift in New Zealand's approach to energy and climate policy. This should be a priority of the incoming Government.

Our preferred approach to energy policy and a potential energy strategy

11. Given the current context of declining investment confidence in firms and households, a well-constructed energy strategy should be somewhat conservative and stabilising. It should re-enshrine key principles to promote confidence, by:

    a setting the direction of travel, but with a focus on credibility, stability, durability and predictability;

    b committing to technology and fuel neutrality, thereby preserving flexibility for private sector investment and innovation;

    c using the energy trilemma as its core analytic and accountability tool;

    d committing to a classical public policy approach, as distinct from arbitrary and capricious decision-making; and

    e setting clear 'no-go' parameters for government policy, as well as triggers and parameters for regulatory intervention.

12. A good energy strategy should be fundamentally aimed at delivering sound energy policy that supports energy outcomes. In our view this is one wherein the reliable supply of affordable energy meets demand in a way that meets social and economic objectives. To the extent that that there are negative externalities involved along the way, such as greenhouse gas emissions, then the right tool for the job should be employed to resolve that. For example:

    a in the case of emissions, the right tool is climate policy, which can and should be delivered through the ETS. Climate policy should not be achieved through energy policy, as it is not the optimal tool for the job; and

    b in the case of energy equity, the right tool (besides ensuring prices are efficient and reflect cost of delivery) is welfare and raising wages through economic growth.

13. In short, an energy strategy should not be a climate change or welfare strategy by proxy. Nor should it be a national socio-economic transformation strategy. It must focus on the fundamentals of the energy sector while demonstrating its connectedness to the wider economy. We are concerned that energy policy has lost its identity and focus – instead becoming a lever of climate policy.

14. The significant investment in new energy infrastructure that is required to deliver a growing and low-emissions economy over the coming decades will need to be driven by the private sector. Private capital – both domestic and offshore – requires stable, enabling policy settings that encourage innovation and risk-taking. The proper role of government is to deliver and preserve these settings, leaving investors to iteratively explore new solutions to meet consumers' energy needs.

15. For more elaboration on the thoughts laid out above, see our:

    a April 2022 Perspectives Series note on our preferred approach to a National Energy Strategy here: https://www.energyresources.org.nz/dmsdocument/212;

    b June 2021 Perspectives Series note on a 'least cost' approach to net zero emissions here: https://www.energyresources.org.nz/dmsdocument/178; and

    c November 2021 Perspectives Series note on the ETS 'waterbed effect' here: https://www.energyresources.org.nz/dmsdocument/202.

The energy sector is united in its view of the policy fundamentals needed

16. In August 2023, the energy sector's leading industry associations came together to issue a joint open letter to Energy and Resources Spokespeople across the political spectrum. The letter laid out a ten-point priority plan that showed unanimity across the sector on the policy fundamentals needed to support the energy sector through the journey toward a low-emissions economy.

17. Our package of submissions reflects these policy fundamentals – though we recommend officials refer to the open letter itself too.[1]

We have commissioned and/or produced a suite of reports that will directly inform any policy design post-consultation

18. Over the past 18 months Energy Resources Aotearoa has delivered a suite of evidence-based reports to inform the development of the National Energy Strategy. Officials will already be aware of these (we have welcomed their positive engagement on each report), but we have listed them below for ease of reference.

Report	Description	Links
Fuelling the Energy Transition	Lays out credible pathways for the transition and shows that a disorderly transition out of natural gas could cost $6.3 billion by 2036, compared to a technology-led transition that enables renewable gases and CCUS.	Summary report Full report

[1] See the joint energy sector open letter here.

Report	Description	Links
Building Energy's Talent Pipeline	An Industry Skills Action Plan for the energy sector, including oil and gas. Jointly prepared by Energy Resources Aotearoa and the Taranaki Regional Skills Leadership Group.	Summary report Full report
2035/2050 Vision for Gas (Castalia)	Explores potential pathways for the gas transition, holding energy security constant to identify trade-offs between energy costs and emissions reduction. Strengthens the evidence base in favour of an orderly transition that enables CCUS. Commissioned by Energy Resources Aotearoa, Gas NZ, and the Major Gas Users' Group Inc.	Summary report Full report
The Role of Gas in Electricity and Industry (EnergyLink)	EnergyLink's independent analysis of the range of potential scenarios for natural gas use in electricity generation over the long-term. It finds the best strategy is to retain gas-fired generation beyond the 2030s (including new peakers in all scenarios); switch Huntly to gas-only as soon as practicable; and concert all geothermal to include reinjection of CO_2.	Summary report Full report

Previous Energy Resources Aotearoa submissions

19. We suggest that, in addition to this package of submissions and the reports above, officials refer to the following previous submissions from Energy Resources Aotearoa.

    a Electricity Authority's Ensuring an Orderly Thermal Transition (July 2023);

    b Climate Change Commission's Draft Advice on Second Emissions Reduction Plan (June 2023);

    c Transpower's Draft Security of Supply Annual Assessment 2023 (May 2023); and

    d Commerce Commission's Options to Maintain Investment Incentives in the Context of Declining Demand (February 2023)

20. All our previous submissions are available here.

Conclusion

21. We appreciate the opportunity to submit on this suite of consultation papers, and officials' direct engagement to date with us and our members. We look forward to this continuing as the new Government establishes its priorities and work programme for the energy and transport systems.