17 June 2024

Hon Simeon Brown
Minister of Energy
Minister of Transport

Key issues

I wish to discuss with you the following points:

a **the gas situation is extremely concerning**. MBIE's latest data release reveals very low levels of investment with low likelihood of new exploratory wells being drilled. The policy solutions on the table, e.g., to remove the gas ban, are welcome and will go some way to enabling another cycle of reinvestment **but are not sufficient**. Urgency is needed if increased gas production is to help next winter25;

b **economic feasibility remains the key barrier for much needed gas investment**. The upstream sector consistently tells us that urgent work is needed from government to release financing, set clear carbon price paths within a stable Emissions Trading Scheme (ETS), establish long lasting bipartisan regulation, and enable technology and innovation;

c carbon Capture and Storage (CCS) is happening around the world. **To make CCS economically feasible in New Zealand**, climate policy settings need to recognise CCS as an emissions reduction technology, rather than as a removals mechanism, and ensure avoided emissions do not incur a carbon fee. The second emissions reduction plan (ERP2) and ETS are vital tools in enabling CCS; and

d cost of living issues are paramount to the public and **gas is an affordable source of secure energy**. Renewables are not reliable alternatives. Imports of coal and LNG would create price instability and have considerable external impacts on climate outcomes and costs to New Zealand.

How we can help you

1. Energy Resources Aotearoa represents the full energy value chain, representing 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. We will give you access to insights from energy sector participants. We are collaborative and will continue to work with you and your department constructively to deliver pragmatic responses to the challenges of the energy portfolio.

3. Thank you for making time to meet with me. You will have received a briefing in April when our meeting was originally scheduled. I have attached that briefing again for your reference. Those issues are now even more urgent, and I provide some further information and updates below, for discussion.

Gas supply and alternatives

4. We are extremely concerned about the gas supply situation. The latest analysis from the Ministry of Business, Innovation and Employment (MBIE) highlights the continuing decline in New Zealand's natural gas production and shows that urgent action is required to secure our affordable, and secure energy future.[1] Lower production has led to more coal-fired generation. This would have been much worse had it not rained.

5. We expect that the next release of annual Petroleum Reserves data in the coming month or so will reveal an even worse reserves position than the 2023 field production forecast release.

6. Transpower have warned of potential blackouts in winter. If we don't address the widening gap that declining gas investment is leaving, coal and Liquified Natural Gas (LNG) imports will become locked-in as the only feasible affordable solutions. Not only will these solutions be expensive (though some reports have LNG imports economic at or around current spot market prices), they will also:

    a seriously degrade our emissions profile;

    b expose New Zealand to greater geopolitical risks via global supply chains at a time of growing geopolitical tensions;

[1] New Zealand Energy Quarterly: New Zealand Energy Quarterly | Ministry of Business, Innovation & Employment (mbie.govt.nz).

c introduce market and price uncertainty by linking us to the global gas market;

d disincentivise local upstream investment;

e require our industrial base to electrify or shift to alternative fuels *before they are economic*, worsening our global competitiveness;

f further damage the wider ecosystem of service providers (legal, engineering and geophysical); and

g increase the risk of our skilled workers moving offshore to where policy settings better appreciate the role of natural gas in the economy.[2]

7. It is our strong preference that the government prioritises the provision of domestic, homegrown sources of energy. We hope that this isn't too late.

8. We understand there are discussions among sector participants about developing storage capacity for LNG imports. This would only be small scale (approximately 30TJ) and only drawn down under critical conditions.

9. While it is clear that the government understands the problem, it is unclear that its magnitude or urgency are as well understood. The establishment of the Gas Security Response Group is a necessary but not sufficient condition. Responses announced are a welcome start, but these need to be proportionate to the nature of the severe damage done and we are yet to see this.

Carbon Capture and Storage

10. It is widely recognised internationally that gas will be needed for decades, and that CCS will help to reach net zero. The Intergovernmental Panel on Climate Change (IPCC) AR6 synthesis report and International Energy Association (IEA) draw similar conclusions. However, currently global rates of CCS deployment are far below those that the IPCC says are required to limit global warming to 1.5-2 ^{o}C.

11. We are co-ordinating sector efforts to explore the technical and economic feasibility of CCS in New Zealand. Current work from MBIE to remove regulatory barriers is looking promising. We stress the importance of clear and coherent

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2 I note recent developments in Australia. The Commonwealth's Future Gas Strategy, released on 9 May 2024, provides a positive narrative about the role of gas in the economy both now and into the future. It is supportive of new gas developments and nicely expounds the role of gas in safeguarding Australian energy security and affordability. Relevant information about the strategy can be found via the following link:

https://www.industry.gov.au/publications/future-gas-strategy#:~:text=The%20Future%20Gas%20Strategy%20maps,safeguard%20energy%20security%20and%20affordability

policy settings across government. We see Electrify NZ and a revitalised gas sector with CCS as consistent with each other and mutually beneficial.[3]

12. To enable economic feasibility of CCS in New Zealand, gas producers need clear signals they will be able to monetise those quantities of CO_2 captured rather than released.[4] There needs to be an avoided cost. The sector needs clarity on this now so they can make decisions about future investment in gas and across their portfolios if CCS were to make it more economic. Natural gas production needs to match the period of any CCS asset lifespan.

13. Internationally, things are moving quickly. Recent examples of major political heft behind CCS include the USA's Inflation Reduction Act 2022, which provides for federal, economy-wide support for CCS as a carbon reduction technology. Likewise in the EU, there are significant policy measures to support it. We are increasingly falling behind and need to pick up pace. For reference, I have attached a previous note we prepared on global CCS developments.

Affordability is the key consideration

14. Affordability is the key global concern. Without affordable energy, a focus on climate is just not sensible or politically palatable. Recent experiences from Europe profoundly illustrate this.

15. We currently have a closed system within New Zealand that can secure gas prices and provide market stability for the energy sector. Imports will introduce market instability and it is unsure how gas prices will be impacted.

16. Fast-start gas peakers should be part of this system. Renewables are simply not reliable or quick enough or capable of delivering the necessary heat. The alternatives will be imports of LNG, and as we are seeing again this year, more coal.

Concluding comments

17. I welcome further discussion on these issues and can assist with making opportunities for you to meet with industry participants who are directly affected.

18. You and your colleagues have a monumental task to lead New Zealand's energy sector and the public through these next few years and we are here to help.

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3 CCS report from Castalia: https://www.energyresources.org.nz/dmsdocument/237. Shifting from coal to gas in electricity generation report from Greg Sise: https://www.energyresources.org.nz/dmsdocument/243

4 Note that CCUS ***is not*** an offset or removal, rather it is an abatement technology that eliminates emissions before they enter the atmosphere (so it is a gross reduction, like any other low emissions technology).