

1 October 2024

Hon Simeon Brown
Minister of Energy
Minister of Transport

Key messages:

- a **energy sector reviews are underway.** While post-mortems can be informative, they can in equal measure be a major disruption at a time when the sector is effectively trying to find its feet after an intensively uncertain period of years;
- b **we now have some visibility of promised Crown Minerals Act reforms and other supporting policies.** The sector continues to wait to assess whether the changes will be material enough to address the massive sovereign risk it currently faces and alleviate the energy shortage;
- c **CCUS is an integral part of the policy package for energy and climate.** But CCUS abound, and there may be **high value byproducts (such as CO₂) that form part of investment decisions;**
- d **our joint letter to political leaders asking for bipartisanship has had a mixed response.** I would like to hear how this has been received by your colleagues and what is happening next;
- e **low emissions fuels have regulatory barriers.** We encourage you to work with your colleagues to address these; and
- f **I wish to warmly invite you to our Christmas function on 11 December** and seek an indication of your willingness to attend a second joint Ministerial breakfast in February next year.

Since we last spoke...

1. You have announced a review of the electricity market and a broader suite of policy proposals for the energy sector including an energy security bill. This was in response to the dire situation of energy shortfalls over this winter when renewable sources of electricity generation faltered, coal usage soared, and gas was redirected into the electricity market to keep the lights on. We welcome the announcements.
2. As previously discussed, fuel, infrastructure, and market structure are likely best addressed in that order, with all three elements needing to be based on a platform of strong competition to deliver the desired outcomes. No market arrangement is perfect and periodic tests of fitness-for-purpose, flexibility, and adaptability to changing circumstances and preferences can be useful health-checks.
3. Key to this is ensuring that all participants in the sector can invest with long term confidence and that all unnecessary barriers to investment are removed (regulatory, and commercial). Ultimately New Zealand's long term energy security will depend on its ability to 'firm' intermittent and unreliable renewable energy in ways that allow providers of that service to make an economic return in the short periods it will be required, and diversity of fuels and technology.
4. We urge you to be cautious with any market reviews and especially structural reform because these risk replacing one set of market uncertainty with another, at the very time we want electricity sector participants to be investing in new generation as demand growth returns.
5. We look forward to seeing the terms of reference for the review and participating as appropriate.

Getting more gas requires urgent legislative changes

6. Upstream producers have consistently called for urgent reform of the legislative framework to give them regulatory certainty and help inform their investment decisions about whether to drill for more gas, and where.
7. We are delighted to see that the Crown Minerals Act (CMA) changes are now in the House but will watch with interest the development of supporting measures to address sovereign risk. We need to, again, stress how urgently these are needed.
8. We have just narrowly avoided blackouts this winter and we have seen the unfortunate closures of two paper mills and the proposed shutdown of one

Methanex train. Demand response from Tiwai and Methanex will not protect us from another dry winter situation, or a dry summer for that matter.

9. Electrification cannot fill a sustained gap in our energy system. Electricity must have fuel, and firming requires a high intensity fuel that can produce a lot of energy for the grid, such as gas or coal. With demand for electricity set to increase, small batteries or rooftop solar panels will help but are insufficient for the job.

CCUS needs to be seen as part of the policy package ...

10. Carbon Capture, Utilisation and Storage (CCUS) needs its own enabling legislation, except for when it is a normal oilfield practice. CCUS is a vital component of the package of incentives for further investment in gas discovery and production. Nor is it unique or overly complex.

... and there could be value derived from byproducts

11. CCUS forms part of the economic and environmental investment package benefits because the avoided emissions do not incur a carbon cost, and there may be valuable byproducts. For example, if future gas production yields a commercial CO₂ supply as a byproduct (as used to happen from refining operations at Marsden Point), it can be used in industrial processes or as a feedstock to create valuable products such as synthetic sustainable aviation fuel (e-SAF). While this may incur a carbon cost to the buyer, it would add to the benefits side of the investment equation.
12. However, questions remain about regulatory treatment of stored carbon, and the length of time a CCUS project owner will be responsible for ensuring the storage solution meets the necessary standard. For example; if regulation takes a perpetual liability approach, would-be emitters are incentivised to pay the prevailing carbon price and effectively socialise the climate risk rather than store the carbon, avoid the carbon cost but remain perpetually liable for it. It is important that the incentives do not favour socialising the effects of emissions over privatising the costs.

... but myths continue to plague CCUS even as an idea

13. There are a number of myths that continue to perpetuate the feelings of unease about CCUS in New Zealand. One such myth is that having a CCUS regime will encourage more natural gas to be used. This is a spurious argument because:
 - a demand and supply equations are complex. There is no causal link between the use of a new technology and increased demand especially when substitutes are available, such as electricity (gas is not like an iphone);

- b it ignores that the increased supply (if it happens) is low carbon, a fact to be celebrated; and
- c this argument seems to ignore the application of the ETS with its carbon price, declining cap and waterbed effect. If net zero is the goal there should be no concern with the volume of natural gas used, so long as the emissions are managed.

We wrote to political leaders asking for a return to a cross party consensus to energy policy

- 14. You received a letter from a collective group of energy sector advocacy groups, including ourselves. We have not yet heard back from the National Party. Members of the opposition have responded, not with the response we would have liked, but are unclear as to the National Party's view.
- 15. A return to some form of cross party consensus is integral to a long lasting and meaningful relationship between the government and the energy sector. It will underpin the long-term investment needed and oversee the return on investment and any decommissioning requirements. Without it, energy security will continue to be a political football, undermining the economy and people's access to affordable and reliable energy.
- 16. Energy security is a key thread in the 30-year infrastructure pipeline. Standalone projects alone won't shift the dial. This includes new generation and the complex networks of transmission and distribution which all need to be pre-planned and coordinated. Seeing energy as critical national infrastructure will help overcome the short-term vision and political challenges the sector has faced over the last three decades.
- 17. A bipartisanship approach helps avoid mistakes of the past, and of other jurisdictions, where government flip-flops have resulted in policy uncertainty and underinvestment, poor planning for resilience, costly back-peddalling and expensive energy.

Transport policies reflect our wider energy system concerns

- 18. You have responsibility for low emissions fuels (LEF) policies but not for the standards and specifications that enable them, nor the climate policies that require them to be introduced to the market. LEFs (as distinct from renewables) will help reduce emissions while meeting our energy needs so it is important that you work with the Associate Energy Minister and Climate Change Minister on addressing regulatory barriers to these innovations.

19. For example, MBIE's consultation on fuel specifications remains dormant, but needs to be released as soon as possible so the fuel importers can contribute and, once there is more certainty, plan their purchases and storage of LEFs.
20. Electrification is a fuel that is best suited to light vehicles. Your planned roll out of 10,000 public EV chargers needs to be coordinated with the wider fuel resilience work. Some government oversight over the national network is important while it develops, as are plans for contingencies. While the fuel security study is underway and focused on Marsden Point, we don't want to lose sight of the wider network of transport fuels, use-cases and options. For example, LEFs are best suited to aviation, marine and diesel vehicles.
21. We welcome the announcement of more detail on the Low Emissions Fuels Heavy Vehicle (LEFHV) fund, in particular its fuel and technology agnostic approach. We support the extension of eligibility for dual fuel hybrid vehicles as they were left out previously. However, we would not usually support a subsidy package like this and we look forward to the outcomes of the six month review.

Your attendance at our Christmas function is warmly welcomed

22. I would like to invite you to attend our annual Christmas networking event on 11 December in Wellington. This is one of the energy sector's premiere events to showcase the year's achievements and give our leaders an opportunity to engage in constructive discussions with the sector. Details are

Wednesday 11 December

Panel starts at 4pm – Function from 5:30pm

Location: PwC Centre, Level 4, 10 Waterloo Quay

23. Please respond to my events manager Cory Lunnon – cory.lunnon@energyresources.org.nz with your attendance details.
24. Subject to your agreement to participate, our new year joint Ministerial breakfast is again set to be an energy sector highlight. As we did this year, we will hold this in Wellington in early February.
25. You will receive more details well in advance with a request for you, and your colleague the Minister of Resources, to address the audience and lay out your respective priorities for the year.
26. At this juncture, it would be useful to gain an understanding of your willingness to participate in what was such a hugely successful event earlier this year.

Concluding comments

27. I welcome further discussion on these issues and can assist with making opportunities for you to meet with industry participants who are directly affected.
28. We look forward to further information about your energy sector review and proposals for improving market competition.