

Sam Stubbs
Level 3
33-45 Hurstmere Rd
Takapuna
Auckland 0622

9 September 2020

Dear Mr Stubbs,

I am writing to express my surprise and disappointment at Simplicity's recent decision to sell its holdings in Genesis Energy because of their ownership of the Kupe gas field and Huntly power station.

Our industry absolutely agrees on the need to lower emissions but in our view your decision makes little sense from an environmental perspective.

Interim Climate Change Committee and the importance of natural gas

Although at a superficial level the use of natural gas by Genesis Energy may seem to contribute to climate change, it is important to consider recent Government research which sheds significant light on this issue.

The Government's Interim Climate Change Committee ("ICCC") specifically looked at the topic of 100% renewable electricity and found, contrary to many initial impressions, that natural gas has a crucial role in lowering New Zealand's emissions.¹

Natural gas enables renewable electricity by providing an affordable and reliable back-up through 'peaking' capacity. In the absence of this, the ICCC found that electricity would become much more expensive meaning that fewer people and companies would switch to electric vehicles and electric process-heat options.

Given that New Zealand is going to continue using natural gas and oil as we transition to lower emissions, it makes sense to produce these locally. Otherwise we are likely to use higher emitting and more expensive energy sources such as coal, and/or imported LNG from overseas.

¹ Accelerated Electrification. Interim Climate Change Committee.

https://www.iccc.mfe.govt.nz/assets/PDF_Library/daed426432/FINAL-ICCC-Electricity-report.pdf

In other words, removing natural gas from generation or industrial processes, while possibly reducing emissions slightly in the static sense, would dynamically lead to the perverse outcome of other key emission abatement opportunities not being pursued.

Focusing on emissions not the fuel type

Rather than a myopic focus on a particular fuel type, we consider that the focus should be on reducing net emissions across the country as a whole (while also considering international carbon leakage risks) and not arbitrarily focusing on particular fuel types. This is consistent with the framing commonly known as the 'Energy Trilemma'.

This is a helpful construct which, in taking a more nuanced and sophisticated approach, positions a focus on emissions into a broader framing. It speaks to the inherent tension and tradeoffs between energy affordability, security of supply, and environmental sustainability. A key insight from the trilemma is that one goal should not be prioritised at the expense of others and that tradeoffs are inevitable.

Genesis Energy

Importantly, Genesis Energy is not solely a natural gas and coal company. It generates electricity from a wide portfolio of sources including wind, solar and hydro in addition to its various thermal units at Huntly.

Divesting from shares on the secondary market also does little to reduce access to capital which renders the plan somewhat lacking in effect (unless sale of enough shares materially reduces market capitalisation). Where an effect might be felt though is if Genesis Energy seeks to raise capital by issuing new shares on the primary market.

Given the company's broad range of generation assets and interest in transitioning to lower emissions, this could mean less capital available for building new renewable generation (as they are actively doing). This would be a perverse outcome from your decision.

Conclusion

As an industry we are proud of our role in providing energy to help New Zealanders live better lives, and proud of our contribution to lowering emissions. Simplicity should also be confident and proud of investing in this area.

We are surprised at the ease with which Simplicity is willing to recant its previous position of working with Genesis Energy, given it was once the energy company's preferred KiwiSaver provider.

I enclose a copy of our publication "The Future of Oil and Gas in a Lower Carbon World" which covers these issues in more detail. Also enclosed is our latest publication "Asking the Burning Questions" which highlights how complex and multi-dimensional these issues are.

My door is always open to discuss any such issues in future - please feel free to contact me at any time on via either john@pepanz.com or 021 375061.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "John Carnegie". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

John Carnegie
Chief Executive
PEPANZ