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Hon Simeon Brown
Minister of Energy
Minister of Transport

Key messages:

- a **gas and electricity prices are high, gas supply is low, and businesses are hurting.** Deindustrialisation is a real threat. Investments in any fossil fuel-related projects now face an unacceptable level of risk that investors cannot bear
- b **Government needs to help de-risk this situation** to achieve an affordable and secure energy future. There is a way forward, but urgency is required in order to have steps in place to assist with winter '26
- c **an Energy Security Act** is a potential medium term solution to fill the gaps in legislation and bring coherence to New Zealand's response to energy security
- d **the draft ERP2 is a sensible document** and we support the direction your Government is taking, but policies will require careful evaluation of their effectiveness and connection across sectoral boundaries

Energy prices are high and could trigger industry closures

1. Energy prices are at record highs. Again, this winter industrials are turning down production to support the national grid. This is not an optimal way to run an energy system. It also sends poor signals to overseas investors at the very time we are attempting to attract more foreign investment. Secure energy is a key input into any business but New Zealand is continually relying on demand response and coal imports.

2. High costs are also creating a market inefficiency by sending energy users a premature signal to 'fuel switch' but the alternatives are not yet commercially at scale or can deliver the attributes required by users (such instantaneous high temperature heat). This forces difficult decisions for industrials and we may see a ripple effect from energy intensive businesses that are forced to close or move offshore. This would be devastating for the economy, regions, and of course the people employed and their families. It will also further deteriorate the quality and affordability of living in New Zealand.
3. Industrial moves to other countries bring the double dilemma of global emissions leakage. While not always avoidable these sorts of economic outcomes have been signalled and are in large part caused by political decisions in 2018 to close off investment in our natural gas sector and the range of supplementary policies that were designed to suppress the role of natural gas in the economy. While this was not your government's doing, you are now responsible for the energy sector and gas producers and users need something practical and urgent to be done.

Government bridging for long-term energy security

4. The level of risk in fossil fuel related infrastructure is now such that it cannot solely be resolved or priced by the market. There is an intolerable level of risk associated with all investments involving fossil fuels – be it oil and gas exploration and production, the development of gas-fired peaking plants, *and/or* LNG import infrastructure. CCUS is similarly affected.
5. We believe that the government will need to provide a risk management role to see the sector through the next few years of firming. The transition crunch is right now.
6. As discussed in my letter to you dated 8 July 2024, all options need to be on the table as you continue working with the Gas Security Response Working Group. The revitalisation of the oil and gas sector must be a critical element of achieving the Government's objective of affordable energy and its retention, along with its associated infrastructure, in providing an option value both with respect to any further natural gas discoveries or the production of renewable gases.
7. We are engaging with the Minister for Resources on the detail of how to encourage oil and gas exploration and appraisal.

An Energy Security Act?

8. The issues that face the energy sector have caused us to give thought to a legislative device that would appropriately prioritise energy security. I have attached our early thinking on an Energy Security Act to this briefing note as

Appendix One. Such a tool could help refocus the energy conversation to beyond the immediate system stress.

9. The Climate Change Response Act 2002 has dominated energy policy in recent years and has inadvertently put our country's energy security in a weak position. An Energy Security Act would re-establish an appropriate balance, effectively doing for energy security what the Climate Change Response Act does for sustainability.
10. The broad characterisation of such a legislative device is that it would:
 - a have the objective of ensuring a secure supply of energy for all New Zealanders at an affordable cost and to facilitate greater accountability for its delivery;
 - b be used as a transparency tool to measure the achievement of energy security and facilitate a public conversation about it and the extent to which there are acceptable tolerances around its delivery; and
 - c act as a focal point for energy security, bringing together the diffuse obligations currently scattered across various pieces of energy-related legislation, fuel-types and agencies.

The draft ERP2 is heading in the right direction

11. The draft Emissions Reduction Plan 2 (ERP2) is a great example of the Government's no-nonsense approach to climate policy. Your energy and transport system plans will be well served by the overall framework of the strategy of least-cost, market-led and a credible emissions trading scheme (ETS).
12. Your officials should be commended for the practical list of potential policies for ERP2 (such as Carbon Capture and Storage) and the long list of discontinued policies from ERP1, which were expensive and counterproductive to the goal of reducing net emissions.
13. We support the approach to innovation and R&D in the draft ERP2, so long as any future support is timely, temporary and targeted, modest, and technology and fuel neutral.
14. The Sustainable Aviation Aotearoa group established through ERP1 needs reviewing. For probity and good governance reasons, we do not believe that it is appropriate to have government officials working in what is essentially an advocacy role in these working groups especially when they are investigating rent-seeking policies such as mandates and publicly funded supports which are not the policy of the current government. We recommend you urgently review the governance, funding and value of these (and similar) groups.

Appendix One: An Energy Security Act

An Energy Security Act should aim to ensure the reliable, diverse and affordable supply of energy at least cost. The security of supply objective is the objective of ensuring the security of supply, to existing and future consumers, to their long term benefit, of—

- a) electricity conveyed by distribution systems or transmission systems; and
- b) gas conveyed through pipes, bottles, or storage.

Energy security means the reliable and secure supply, in regard to continuity of supply, access and quality of supply. Arrangements for meeting these need to be durable in the face of high impact, low probability events, or the impending prospect of those events occurring.

Such an Act could include measures for:

- a) diversifying energy sources;
- b) enhancing infrastructure resilience;
- c) ensuring regulatory frameworks support energy security and competition and innovation in its attainment;

It could also:

- a) legislate for the establishment and maintenance of a security of energy supply council;
- b) address the dependency on foreign energy sources;
- c) address any dynamic efficiency effects that may arise if security and reliability issues undermine investor confidence in the efficient achievement of security of supply;
- d) require an annual report on security of energy supplies along with a forward looking element on risks to security of supply and options to mitigate them, etc;
- e) require public-private collaboration to achieve enhanced energy security;
- f) seek the provision of energy security services at a quality that reflects consumer demands; and
- g) facilitate as much as possible the tailoring of security and reliability to the preferences of individual consumers and, where possible, allow for consumers to invest to achieve their individual preferences.