

8 August 2025

Hon Simon Watts
Minister for Energy
Minister of Climate Change

Meeting with Energy Resources Aotearoa on 13 August 2025

Attendees: John Carnegie – **Chief Executive**
Angela Parker – **Policy Director, Downstream Energy & Climate**

Key messages

Electricity:

- ***New Zealand's electricity system faces serious reliability risks this winter and beyond.*** Lower-than-average hydro levels, rising demand, and reliance on aging thermal assets like Huntly highlight the urgent need for more firm, flexible energy solutions. Without solving this problem, price volatility and supply shortages are inevitable
- ***stability in the electricity market is critical – now is not the time for rushed or structural reforms.*** Uncertainty from reviews, taskforces, and speculation around restructuring vertically integrated generators and the Government directly investing or intervening in the market risks further destabilising the sector. Changes must avoid shifting risk to taxpayers and ensure private sector investment continues
- ***Government action must prioritise access to fuels, infrastructure, regulatory certainty, and a degree of patience.*** Fast-Track consenting and gas revitalisation policies are promising, but long-term success depends on giving those actions time to bed in while taking other steps that are strategically aligned

Climate change:

- ***to deliver effective emissions reductions and energy resilience, climate policies must support practical, least-cost technologies, like CCUS, biogas, and biochar, without distorting the ETS or duplicating incentives. We need clear, enabling frameworks for emerging technologies and low-emissions fuels such as SAF***
- ***ETS clarity is needed for biogenic methane and CO₂, but no change is needed to ETS settings for CCUS***

Electricity

1. This winter we are not yet out of the woods. Transpower has reported we are currently still relying on slow start thermals to get us through the lower-than-average hydro levels and recent cold weather. The sector has never been in more uncertain times with multiple, large-scale reviews, and seemingly rolling from crisis-to-crisis.

The primacy of prices

2. The electricity market is nervous – it is time for calm heads to prevail. With the *Frontier Economics* report delivered but not publicly released, many in the sector are anticipating big changes when energy security is much needed, not further instability.
3. Policies that push targets, subsidise specific technologies, or ignore market signals often do more harm than good. Instead of trying to engineer the ‘ideal’ or desired energy mix, prices not politics should guide investment. Targeted interventions, especially to deal with our current energy shortage and high prices are tempting, but should be avoided in preference to long-term, strategic and durable ones. It is a tenet of good public policy that you shouldn’t solve one problem by creating another.
4. A well-functioning market, with clear carbon pricing and neutral regulation, is likely to be the most effective way to ensure secure, affordable and low-emission energy. Importantly, while often uncomfortable, prices *should* be allowed to reflect scarcity and risk – doing so is an important signal to investors and the efficient allocation of resources. Ease of entry (and exit) of the market should be encouraged to allow competition and innovation to thrive.

Market structure

5. We remain concerned about commentary and recommendations from the Energy Competition Taskforce and others suggesting structural changes to the vertically integrated model. Reallocating or investing in thermal assets might also be considered. This would only shed risk to the Crown and taxpayers who are the least able to manage it and potentially dampen incentives for the private sector to get on with producing more secure energy. This was the experience with the Crown’s investment in Whirinaki post 2004. It would also shift the management of maintaining security of supply to the Crown.¹
6. You have suggested publicly there might be good reason for looking at the regulators – The Electricity Authority (EA), Gas Industry Company (GIC), Commerce

¹ This creates a “moral hazard” problem, where an entity engages in riskier behaviour due to the knowledge that the costs associated with that behaviour will be borne by someone else. This would also apply should the Government, as reported in Energy News, seek to reallocate natural gas amongst competing users.

Commission, Ministry of Business, Innovation and Employment (MBIE) – to find ‘synergies and efficiencies.’ We are open to this, but only if ‘form follows function’, not just lifting and shifting the problem. But we also think that there are bigger problems to focus on.

Fuel, infrastructure and firming

7. It is welcome news that Genesis is exploring options to build a new fast-start peaking plant at Huntly², and has also secured 10-year contracts with Mercury, Contact and Meridian (subject to authorisation). A multi-fuel, flexible facility like Huntly is still very much needed. In 2024, Huntly produced 30 per cent more electricity than expected. But more is required. Backup is critical for firming our electricity system, especially in a dry year. Huntly is burning large amounts of coal, but this is an inferior fuel to natural gas which is cleaner, cheaper and supplied domestically – supporting jobs and the economy.
8. Relying on Huntly alone, and burning coal, is insufficient given the demand growth projections for electricity in the years ahead. It is imperative you remain focused on the primary problem – how to get policies strategically aligned so the market delivers more fuel and infrastructure for firming to support our growing renewable energy baseload – through peakers, batteries and more generation. If New Zealand could access more of its own natural gas resources, this could provide a lower-emission fuel, helping to firm the system while bolstering the investment case for more renewables, which externalise the system costs of firming for their intermittency.
9. We need to stay focused on secure and affordable energy, supported by well-designed regulation and healthy market competition. People and businesses need that confidence to electrify and help us reach our climate goals. If this problem is not solved, it will not matter what changes are made to the electricity market settings – New Zealand will not have sufficient energy to meet demand, and prices will inevitably continue to be volatile.
10. The Government has policies underway. The Fast-Track legislation and RMA reforms for example, are going to support infrastructure builds, and the policies for revitalising the gas sector should be given time to bear fruit before other less optimal infrastructure solutions are introduced that significantly distort the market.

Electricity Security Bill and Energy Strategy

11. We would like an update on this Bill and when we will (collectively, or through targeted consultation) be able to preview it before it goes to its first reading. It is vital that the content of this Bill is socialised with the sector in advance.

² It is possible that such a market-led response would be put at risk should the Government invest in a ‘ThermalCo’ or similar.

12. We understand enabling legislation for Liquefied Natural Gas (LNG) is likely to be included in the Bill. This will be of great interest to our members, and we would like to be involved. A key issue is demand uncertainty. Some years, New Zealand might need no LNG at all, which makes it difficult to compete for investment in a global market that favours scale and certainty. Regulatory certainty will help and is needed at the earliest opportunity, but investment will still be subject to sovereign risk.
13. We are also interested in progress on the Energy Strategy and how this will support and stimulate more firming for renewable electricity generation.

The Gas Forum

14. We are attending a Gas Users Forum in Auckland on 8 August at which your colleague the Hon. Shane Jones will speak. While availability and the price of natural gas is the trigger for this conversation, the reality is that it is a forum of regional manufacturers who have been caught in the backwash of previous policy decisions and simply want low cost energy to stay competitive. Investment and jobs in regional New Zealand are now at risk.
15. We are unclear what new policy steps can be taken that will help in the immediate term to alleviate the concerns being raised, as there are no easy short-term fixes. However, we anticipate a strong call for a return to bipartisan policy settings. We will brief you in person as to the outcomes from the forum at our meeting.

Climate change policy

Carbon Capture Utilisation and Storage (CCUS)

16. We are keeping a close watch on the development of the Carbon Capture Utilisation and Storage (CCUS) regime, as this goes hand-in-hand with the revitalisation of gas production. We have some concerns about how officials are progressing.
17. The regime needs to work for the petroleum industry. If emissions reductions are not enabled through CCUS in the way that industry needs them to be, it may put the Emissions Reduction Plan targets at risk and alternatives will need to be found.
18. We agree with your Cabinet recommendations that no change is needed to the settings for the utilisation component of CCUS. To quote from the proposals in the Cabinet paper:

*"regulatory changes are not needed to support Utilisation. As the carbon is used ... the incentive for companies to capture CO₂ for use comes from the revenue from selling CO₂."*³

If companies were to receive NZUs on top of this commercial gain, it would be a distortion, in effect, a form of double dipping.

19. We remain firmly of the view that there is no need to change the ETS settings unless carbon is being captured, transported and stored by a third party.

Biogas and ETS 'rewards'?

20. We strongly support the work you have initiated to build a market for biogas. Biogas can sustain and strengthen the whole gas system and associated services, jobs, workforce, and skills. It can add to our energy security. In our view, we need all the gas we can get. But we need to be realistic about timing, cost and scale.
21. We want to ensure that the most appropriate and least-cost solutions are implemented to establish a biogas market for New Zealand. However, there is potential for confusion and some mixed signals about the treatment of biomethane under the ETS, such as your statement to the Biogas Bridge conference:

"Under the government's proposed Carbon Capture, Utilisation and Storage framework – or CCUS – businesses that capture and store carbon, including biogenic carbon dioxide from biogas, could be eligible to be rewarded through the Emissions Trading Scheme. This is a clear signal of our commitment to enabling low-emissions technologies."

22. It is not clear how biogenic gases would be included or rewarded under the ETS, as you and others mentioned at the conference. We would like to understand this better.
23. Our current interpretation of legislation is that biogenic methane is treated differently depending on the source:
- a biogenic methane from municipal landfill sites is included in the ETS as a liable emission;
 - b biogenic methane from livestock is outside the scope of the ETS with the removal of all provisions for agricultural emissions; and
 - c for biogenic methane from other sources in the developing "biogas" sector, such as those from dairy waste fermentation, are zero-rated for ETS liability

³

Cabinet paper titled 'Enabling Carbon Capture Utilisation and Storage' (October 2024), paragraph 16.1 at page 3.

when blended with other natural gas sources. This is consistent with the approach used for liquid biofuels, e.g. biodiesel blends.

24. Focusing on “biogas” as described above, the financial incentive through the ETS already exists through being able to price up to the alternative natural gas (with ETS liability) price. Therefore, if ETS units were awarded directly for biogas, that would duplicate an already existing incentive.
25. Referring back to your statement above, we fully support awarding ETS units for carbon and storage (CCS) of CO₂ from biogas, with the same provisions for CCS on CO₂ from the petroleum sector.
26. As policy development proceeds, we suggest clarity on how the different sources of biomethane are addressed as it will be vital to avoid regulatory or incentive overlaps or gaps. This will then support investment confidence.

Biochar uses waste and slash to make energy and store carbon permanently

27. There are new ways of capturing carbon using waste, heat and forestry slash. By thinking strategically about a ‘solution-set’, medium-sized industries could manage methane and carbon emissions, while de-risking their medium to long term future of the business. A biochar operation run out of a meat or cheese factory, for example, would have many advantages over biogas alone. We have more information if you are interested.

Our Net Zero Accord update

28. This year’s update of our *Energy Resources Net Zero Accord* will be a bumper issue, with a number of new signatories and supporting partners. We are thrilled to produce this update each year to showcase the hard work and efforts of our sector to reduce emissions – both in quantity and intensity.

Sustainable Aviation Fuel (SAF)

29. We are supportive of a domestic industry for SAF insofar as we support all emerging markets and alternative fuels. It will need enabling policy for the market to find the best solutions and pathways.
30. We believe volumes have potentially been overstated in the feasibility study. There would be significant transportation costs, long lead times to production, and competing interests for feedstock (e.g., biomass for Huntly). Harmonising with international standards is important as New Zealand must be source agnostic and welcoming of imports, as well as domestic production, in order to be assured of the least-cost outcome.

Any other business

Energy Forum 17 October 2025

31. We sent you an invite to participate at our on-line *Energy Forum*, alongside Megan Woods, on Friday 17 October. We understand that you have declined this invite, and the Hon. Dr Megan Woods is still scheduled to present to our audience.

We are here to help you

32. As always, we are here to help you work through issues and connect with the relevant stakeholders. We are entering a critical period for the electricity market, but also for our emerging markets in alternative fuels. Of course, revitalising our gas supplies remains an urgent priority. We can assist with these matters.