

19 July 2018

Vicky Robertson
Chief Executive
Ministry for the Environment
PO Box 10362
Wellington 6143

Sent via email: ZCB.Submissions@mfe.govt.nz

Dear Vicky

Consultation on the form of the Zero Carbon Bill

First Gas Limited welcomes the opportunity to comment on the form of the Zero Carbon Bill (the Bill) before it enters Parliament later this year. Our submission addresses several of the proposals outlined in the Ministry for the Environment's *Our Climate, Your Say* paper (the discussion document) released in June 2018 and discussed through public workshops.

Summary of key points

First Gas has focused our comments on three areas that we see as essential to meeting any of the targets proposed in the discussion document. We consider that:

-)] The proposed **Commission will provide value by contributing to an effective emissions framework**, and must have institutional independence, both advising and monitoring roles, and the necessary range of expertise for this vital role;
-)] The **Emissions Trading Scheme (ETS) is a vital and central tool** for driving reductions in emissions, and must be considered in parallel with the setting of emissions budgets; and
-)] Adapting to the **impacts of climate change is a priority but would be better actioned by a body separate to Commission**. It is important that the Commission is focused and properly resourced for its key role around reducing emissions towards the 2050 target.

We expand on each of these points below.

About First Gas

First Gas operates 2,500 kilometres of gas transmission pipelines and more than 4,800 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20% of New Zealand's primary energy supply. Our distribution network services 61,500 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne and Kapiti. For further information on First Gas, please visit our website www.firstgas.co.nz.

First Gas applauds the Government for making climate change action a priority. We note that carbon emissions from the use of natural gas account for just over 12% of New Zealand's gross emissions. Currently, the use of natural gas helps to solve some of New Zealand's difficult energy issues. It provides security of energy supply on cold winter nights and dry hydrological years. It also provides process heat for many of New Zealand's industries, at approximately half the intensity of coal.¹ We

¹ Refer to figure 2 in First Gas' submission to the Productivity Commission on the *Issues paper on a low carbon economy*, <https://www.productivity.govt.nz/sites/default/files/sub-low-emissions-47-first-gas-limited-953Kb.pdf>

therefore believe that the best approach to achieve net zero emissions will involve the decarbonisation of multiple energy networks, and that gas networks will be an important part of the solution.

1. An independent Commission will be a valuable contributor to an effective emissions framework

First Gas considers that an independent Commission will provide valuable input into the climate change discussion, by promoting transparent and well-informed decision making around achieving the 2050 target. To be fully effective in its role, the Commission must have operational/institutional independence, both advisory and monitoring functions, a balanced composition with a range of expertise, and have oversight of relevant government work programmes and energy policy that influence the transition to a lower-emissions

Importance of operational and institutional independence

First Gas considers that achieving the 2050 target will require commitment and consistency from all sectors of New Zealand. We strongly agree with the four factors set out in the discussion document, that the Commission need to be successful.² Political consensus is key, with the setting of a clear direction and work programme that endures across political cycles. A transparent and consistent framework is also needed to provide confidence to New Zealanders and investors. Long term action is required to reduce emissions, and the transition will impact on many long-life assets, such as our gas pipeline infrastructure.

To enable success, we recommend that the Commission must have a high degree of operational and institutional independence. The Bill should include mechanisms to hold the Government to account so that the credibility of the Commission is maintained and there is certainty on process and outcomes for New Zealanders. Whilst it is ultimately the Government's role to make decisions on policy and trade-off outcomes across society, this should not dilute the impact of the Commission's advice. The Government should therefore be required to respond to the Commission's advice and provide reasons for deviating from that advice.

Commission must have both advisory and monitoring functions

To enable the Commission to hold successive governments to account, First Gas recommends that the Bill establishes the Commission with both advisory and monitoring functions. We believe that advising the Government on emissions budgets should not be done in isolation. It requires a feedback loop, where the Commission monitors progress against the current emissions budgets, and subsequently uses this information to inform the composition and level of future emission budgets.

In addition, we recommend the Bill includes a requirement for the Commission to review and publicly report on progress against the 2050 target at regular intervals. This is a pragmatic step that enables the Commission and Government to understand progress and consider if the target may need to be revisited to reflect important factors such as technology advances and international commitments.

Credibility of the Commission influenced by its composition and expertise

The composition and collective expertise of the Commission will determine the credibility of the advice it provides Government. We agree it is pragmatic to learn from the United Kingdom's Climate Change Committee and Climate Change Act 2008. The UK Act embeds in legislation the factors its climate change committee must take into account when undertaking its work, and we support a similar approach for establishing New Zealand's committee.

We support the range of experience proposed for the Commission.³ In addition, we strongly suggest that the Commissioners should have expertise in:

-) Business competitiveness;
-) Knowledge of the public and private innovation and technology development systems; and
-) The energy sector.

The discussion document considers this expertise to be non-essential or, as in the case of energy sector expertise, doesn't include it in the list of expertise required. However, we are unsure how the Commission can complete its work effectively without having this expertise. The Commission will need to advise on how New Zealand could best address the challenges posed by the energy trilemma as we work toward a low emissions economy.

² Page 41, discussion document.

³ Page 45, discussion document.

This trilemma balances:

-) Maintaining energy security (keeping the lights on);
-) Energy equity (energy is available to all regardless of income – avoiding fuel poverty); and
-) Environmental sustainability (doing all this while addressing climate change and other environment issues)

Extensive energy sector expertise to understand how to best balance these three factors. We recommend that it is listed as essential expertise for the Commission.

Commission’s advice must have clear links with energy policy and related work programmes

To be effective in its role, the Commission must consider the Government’s energy policy, relevant government work programmes and developments in science and technology. This will ensure robust advice that is informed by scientific knowledge and technology advances and considers the broader economic and societal impacts.

As we have indicated, we strongly support the proposal that the Commission consider, when undertaking its work both:

-) *Energy policy and, in particular, the likely impact of the decision on energy supplies and the carbon and energy intensity of the economy; and*
-) *Social circumstances, particularly likely impact of decisions on fuel poverty*⁴.

A sustainable economy will require a secure energy supply at a reasonable cost, both for industry, commerce and residential consumers. This will involve trade-offs over the budget periods between the level of emissions, energy security and the societal effects of higher energy costs.

Consideration of energy policy should also encourage discussion around what we can do to minimise emissions in the short term, in a cost-effective manner. By optimising the current energy resources, we can reduce overall emissions while other longer-term solutions are developed. For example, industry could continue to reduce emissions by converting process heat from coal to natural gas. This may be a stepping stone through to a period where another fuel source such as renewable hydrogen has been developed to meet future energy needs.

We recommend that the work of the Commission be clearly linked to the work programmes of other relevant government agencies to ensure a coherent body of research and work with minimal overlap or duplication. For example, the Ministry for the Environment (MfE) has established a Transition Hub to lead government advice on how we transition our economy, and the Ministry for Business, Innovation and Employment (MBIE) has set up a Just Transitions unit to consider how best to manage the social and economic impacts of the changes involved.

Access to the latest developments in science and technology will also ensure the Commission’s advice is balanced and targets can be met in a least cost manner. We consider that New Zealand will be best served by keeping its options open and taking a technology neutral approach. We encourage the Commission to not solely focus on electrification and consider the broader energy trials being undertaken internationally with other fuels. For example, in our recent submission to the Productivity Commission, we outlined how hydrogen as a low emissions source of energy is being trialled extensively in the United Kingdom, Europe and Australia.⁵

2. Central role for the ETS and linkages with emissions budgets

First Gas recommends that the Bill draws a stronger linkage between the role of the ETS, the 2050 target and the proposed emission budgets.

The ETS is an essential tool to support emissions budgets and ultimately achieve our 2050 target. By pricing emissions and potentially setting a cap on units, the ETS can effectively incentivise the emission reductions required by respective budgets. While we acknowledge that the ETS has not played a strong role in reducing emissions to date, we believe that recent increases in ETS prices and higher forecast prices are starting to change decisions. It would seem pragmatic that the Commission provide advice on these areas of the ETS at the same time it provides advice on budgets.

One of the issues with the current ETS is the uncertainty around the price and availability of units. By linking the ETS with the emissions budgets, then businesses are provided with greater certainty

⁴ Page 44, discussion document.

⁵ <https://www.productivity.govt.nz/sites/default/files/sub-low-emissions-316-first-gas-limited-718Kb.pdf>

around the long-term direction of the ETS. We consider that the emissions budgets should cover successive 5-year periods. The aims of each budget will indicate the most effective emissions price and unit availability to meet the outcomes required.

We believe we should preserve the option of future participation in an international ETS. This does not reduce the emphasis on New Zealand's domestic policies for emissions reduction and does allow alternative options if the innovation and technology advancements do not occur in the timeframe required. We should also preserve this option in the event we see the economy retracting too far. We consider the Commission could inform and lead debate on participation in an international ETS if a suitable, verifiable and reliable scheme were to develop.

Development of emission budgets

We support the development of emission budgets that:

-)] Publicly signal the emissions reduction pathway towards the 2050 target, providing a degree of certainty and predictability to New Zealanders;
-)] Provide a catalyst for political parties to develop their climate change policies; and
-)] Maintain a degree of flexibility, so budgets can be amended to reflect significant changes in circumstances that would have a substantial impact on the current or future budget periods.

3. Adapting to impacts of climate change requires action but should not be addressed by Commission

First Gas welcomes the Government recent work into climate change adaptation ⁶ and support the discussion papers recommendations that it is time for:

-)] A national climate change risk assessment to be completed, and
-)] A national adaptation plan be developed so New Zealand will have a co-ordinated planned approach to the current climate challenges.

As owners of major infrastructure across the North Island, we are aware of the impacts climate change has on our business. Many of our below ground assets are in areas near the coast and subject to the effects of erosion on the underlying land and rising sea levels. We have developed our own risk assessments and plans to mitigate the risk of asset failure due to climate driven issues. and would be happy to feed this information in a national adaption plan.

However, we query whether the responsibility for monitoring and reporting against the plan should fall under the purview of the Commission. We consider that the addition of adaptation work alongside the other proposed functions of the Commission may lead to an overly extensive work programme, with a risk that not all areas would get the required focus. The two work areas have separate drivers – the primary work focuses on how to set a pathway to the future 2050 target, while the adaption work focuses on responding to the current environment as changes occur. We would recommend that a government agency with a strong local government interface would be suitable, given the need for adaption activity and planning to be undertaken at a local level (i.e. Department of Internal Affairs or Ministry for the Environment).

Contact details

We appreciate the opportunity to provide input into the form of the Zero Carbon Bill. If you have any questions regarding our submission, please contact me on (04) 979 5368 or via email at karen.collins@firstgas.co.nz.

Yours sincerely



Karen Collins
Regulatory Manager

⁶ Page 24, *Adapting to climate change in New Zealand*, recommendations from the climate change adaptation technical working group.