

20 September 2019

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Dear Sarah

## **Responsibly Delivering Value – A Minerals and Petroleum Resource Strategy for Aotearoa New Zealand: 2019-2029**

The Firstgas Group (Firstgas) welcomes the opportunity to comment on the Ministry of Business, Innovation and Employment's (MBIE) draft consultation document, "*Responsibly Delivering Value – A Minerals and Petroleum Resource Strategy for Aotearoa New Zealand: 2019-2029*" (the Resource Strategy).

We believe a Resource Strategy has the potential to become a useful tool to inform future policy and investment decisions. The extractives sector makes an important contribution to New Zealand society and we were pleased to see that acknowledged in the consultation document. We also welcome the acknowledgement that using our indigenous gas resources makes an important contribution to New Zealand society.

### **Firstgas' interest in the Resources Strategy**

Firstgas has a strong interest in the future of New Zealand's extractives sector, specifically natural gas and LPG. We own and operate New Zealand's gas transmission system and some gas distribution systems which deliver gas to residential, commercial, and industrial users across the North Island.

We also own and operate New Zealand's only open-access gas storage facility. This is a depleted gas field that has been re-purposed to store large amounts of energy for release when New Zealand energy users need it most (e.g. due to low hydro inflows or during periods of high demand). When our storage facility is full, it contains the equivalent of ~18 petajoules of energy, which is more than the total quantity of energy contained in all of New Zealand's hydro-storage lakes (~14 petajoules). We also own New Zealand's largest LPG retail business (Rockgas), which is supplied by domestic and imported sources of LPG.

Our assets are a critical part of New Zealand's energy infrastructure. A priority for us is to ensure that our assets continue to provide high levels of reliability and energy security, while helping decrease New Zealand's overall carbon emissions. We use strategic planning as a tool to support our asset management and investment decisions, which extend over decades. Strategic planning is also critical for identifying and adjusting to important changes in our operating environment. In this regard, we think a well formed, future-focused, national level extractives sector strategy is essential.

As New Zealand transitions to a lower emissions economy, a key strategic focus for Firstgas is to maintain a secure and affordable gas supply – whether that be natural gas, LPG, hydrogen, biogas, or blends of gas. We believe that natural gas and blends of gas will remain an important part of the energy mix for decades to come and we are investing on that basis. Security of supply is also linked to affordability. The more reliable and secure our various energy supply options are, the greater the likelihood that New Zealand's energy will also remain affordable. We believe a national Resources Strategy will have an important impact on future investment in the extractives sector, linked industries, and a much wider range of stakeholders.

Due to the broad nature of the Resource Strategy, our approach in this submission has been to focus specifically on the energy sector. We also provide high level comments on the approach to strategy

development and some suggestions that could give a Resource Strategy more utility for a wider audience.

Nothing in this submission is commercially sensitive and we are happy for this submission to be posted on MBIE's website.

### **Broad scope of the Resources Strategy**

Firstgas is concerned that the current scope of the Resource Strategy is so broad that it has limited the ability to establish a vision, objectives and actions that can usefully support short, medium and long-term planning.

New Zealand's extractives sector is comprised of several disparate segments. Each segment makes its own unique contribution to New Zealand and has its own unique risk and opportunity profile.

To improve the utility of the Resource Strategy, we recommend splitting the sector into its natural segments and using these as key focus areas to develop insights about each segment. The insights then provide the basis for strategy development. Some logical segments would be:

- Industrial minerals and aggregates (roading quarries, garnet, sand and clays);
- Metallic and specialty minerals (gold, silver, lithium etc);
- Energy (natural gas, biogas, hydrogen, coal, syngas); and
- Petrochemicals (urea, methanol, other products).

We believe reframing the Resources Strategy in this manner would provide a more effective structure.

### **Links to other government priorities**

We believe the scope of the Resource Strategy also needs to better reflect the current direction of other strategic plans set by Government, in particular, long-term infrastructure plans and reform of the Resource Management Act 1991 (RMA). There are also several reviews, initiatives and legislative changes underway that will impact the extractives sector, these include:

- Crown Minerals Act (CMA) reform
- Conservation estate – no new mines on conservation land
- Building sector reform
- Fresh water reform/National Policy Statement
- Review of the Gas Act
- Electricity Price Review
- Establishment of an Infrastructure Commission
- Establishment of the Climate Commission and Zero Carbon Act
- Sulphur fuel standards in the marine transport industry
- The release of a green paper on the vision for hydrogen in New Zealand

We recommend including a more detailed comparison of the vision, strategic objectives and action areas in the Resource Strategy with those in the initiatives above. We think the diagram on page 19 of the Resource Strategy a good start. However, it is currently unclear how consistent the Resources Strategy is with the 30-Year New Zealand Infrastructure Plan and RMA reform (for example).

### **Need for a broader time horizon for the Resources Strategy**

We think the proposed 10-year time horizon is a good start for the Resources Strategy. However, for the segments of the extractives sector that Firstgas rely on, a 10 year horizon doesn't usefully support infrastructure planning and investment decisions. We believe there is an opportunity to consider more than one time horizon in this strategy.

We suggest three time horizons for the Resources Strategy – 10 years, 20 years and 50 years. This approach would help Firstgas with its own transitional plans, that is, to plan for an environment where natural gas is progressively blended and replaced by alternatives such as hydrogen and biogas.

We believe an expanded Resource Strategy timeframe will benefit other sector stakeholders, especially the general public. Applying short, medium and long term horizons to the Resource Strategy will increase transparency about expected resource sector challenges over time – energy security for example. From a public perspective, this approach will ensure individuals have the information to understand the trade-offs needed to maintain New Zealand's standard of living. For example, if we don't want to extract our own natural resources for domestic use, then how do we feel about importing more finished goods or raw materials? How would that impact society?

## **Improving the proposed vision, objectives, principles and action areas**

As highlighted above, we think the broad scope of the Resource Strategy limits its usefulness. By narrowing the scope, we think this will provide clearer vision, objectives, principles and action areas.

### **Vision**

As outlined above, we think that without appropriate segmentation of the extractives sector and strategic insights about those segments, that it's not possible to articulate a vision that is useful for sector participants and other stakeholders. As it is, the proposed vision in the Resource Strategy is too high-level and non-specific to support long term planning and investment.

Our preference is to have a separate vision and strategy for the energy segment. This would help energy sector stakeholders coordinate efforts to decarbonise and reduce emissions. We believe the World Energy Council's Energy Trilemma (reliable, affordable, environmentally responsible) provides a useful basis for a strategy for the energy segment and propose adopting that.

### **Objectives**

We agree with the general message conveyed in the primary objectives and would be surprised if most New Zealander's didn't aspire to those things as well (they are truisms). However, as strategic objectives, they fail to address critical issues or challenges. If the issue that the strategy is trying to address is climate change, then we would have expected the objectives to be more targeted and based on a more detailed diagnostic of a specific segment of the extractives sector. In summary, the objectives have been presented as statements of desire rather than plans for overcoming obstacles. We think more segmentation and a diagnostic of the potential issues and challenges facing those segments over the next 10/20/50 years would be more useful to a wider range of stakeholders.

### **Principles**

Guiding principles are often useful. Like the strategic objectives, the principles presented in the strategy are mostly truisms – most people would agree with the suggested principles. We note that many of the principles are already reflected in the legislative frameworks that govern the extractives sector such as the CMA, RMA, health and safety legislation, as well as many of the agency documents and industry material developed to help the general public understand the extractives sector.

### **Action areas**

A key benefit of a Resource Strategy is that it should identify areas with specific risks or opportunities to be addressed, helping government agencies and stakeholders determine the action areas to focus their resources more effectively. Firstgas' primary interest in this submission is energy security and gas substitutes for our pipeline network, therefore we have focused our comments on Action Area 2. We provide specific comments on Action Area 2 below.

### **Action area 2: Securing affordable resources to meet our mineral and energy needs**

We propose that the energy segment within Action Area 2 of the Resources Strategy become a key focus area with its own strategy. Energy security will need to be addressed as New Zealand transitions to a lower emissions economy.

We note that over the last year New Zealand's broader energy system resilience has come under pressure in response to low hydro lake levels, gas supply curtailments, low wind, increasing electricity demand, and increasing penetration of intermittent renewables. Coal and natural gas have played an important role in helping provide energy security over that time. The point here is that energy security has many complex interlinkages, and we believe that last year's challenges demonstrate some of the potential difficulties transitioning to a lower carbon energy system. We also think that better coordination and planning across the broader energy sector is needed to maintain a high level of energy system security as the system evolves over the next 10, 20 and 50 years.

Given these factors, we recommend that strategy development for energy security should be led by a cross-agency and cross-industry working group, that:

- Feeds into and links agencies such as the Infrastructure Agency, Climate Commission, MBIE, EECA, the Electricity Authority, Transpower; and
- Works with community groups and other stakeholders.

This approach has been demonstrated in the United Kingdom (UK) by the National Grid, Future of Gas<sup>1</sup> initiative. The purpose of the UK Future of Gas Steering Group is to provide cross-industry leadership to develop a Gas Markets Plan, which is focused on the priorities and changes to the gas market over a 10-year horizon. The group highlights areas on which the system operator, and other relevant stakeholders, should focus to maximise consumer value. These include the types of initiatives needed to prepare for the gas market of the future. It is about gathering evidence, discussing and testing the role of gas in the UK's transition to a low carbon economy.

We recommend adopting a similar approach and applying that to the broader energy system in New Zealand. Firstgas is prepared to take a leadership role in convening and facilitating the group, in a similar way to the National Grid in the UK. We would welcome the opportunity to discuss and develop this idea further.

**Contact details**

If you have any questions regarding this submission, please contact me on (04) 830 5306 or via email at [josh.adams@firstgas.co.nz](mailto:josh.adams@firstgas.co.nz).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Josh Adams', with a stylized flourish at the end.**Josh Adams**

Transmission Commercial and Ahuroa Business Case Support

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<sup>1</sup> [https://futureofgas.uk/wp-content/uploads/2018/03/The-Future-of-Gas\\_Conclusion\\_web.pdf](https://futureofgas.uk/wp-content/uploads/2018/03/The-Future-of-Gas_Conclusion_web.pdf)