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Dr Deborah Russell
Chairperson
Environment Committee
Parliament Buildings
WELLINGTON

Submitted online via Parliament website

Dear Dr Russell

Crown Minerals (Petroleum) Amendment Bill

This is First Gas Limited's submission on the *Crown Minerals (Petroleum) Amendment Bill* (the Bill). We are also making this submission on behalf of Gas Services NZ Limited (GSNZ), an affiliated company with common shareholders that owns and operates the Ahuroa Gas Storage facility and has agreed to purchase the Rockgas LPG business from Contact Energy.

We wish to speak to this submission.

Summary of key points

First Gas agrees with the Government that climate change action needs to be a priority for New Zealand. However, we believe that this Bill works against that priority. Analysis by MBIE[1] highlights that this Bill may result in an increase in global greenhouse gas emissions and comes at a considerable cost to the Government through foregone revenue. Of greater concern, we believe that this Bill will likely drive unnecessary energy cost increases for New Zealand households and businesses. These impacts on energy affordability risk destroying political and public appetite for taking action on climate change – as recently seen in Australia.

First Gas cannot support this Bill as:

- It will likely increase energy costs for consumers across New Zealand by eliminating potentially attractive sources of energy supply before a viable transition plan has been established;
- It is at odds with the Government's measured approach to addressing climate change, as signalled through the Zero Carbon Bill. The lack of due process and consultation highlights a disjointed and concerning approach to decision-making;
- It reduces the optionality for natural gas to positively contribute to our country's transition to a lower-emissions economy and the potentially even larger gains that might come from energy export options in decades to come; and
- It creates regulatory uncertainty that undermines investor confidence and damages New Zealand's reputation as an investment destination. It will negatively impact on businesses such as First Gas who invest in long-life infrastructure.

For these reasons, we firmly believe that the Select Committee should halt consideration of this Bill. Instead, we recommend that the Government commence a more robust and encompassing review of the *Crown Minerals Act 1991* (CMA) and consult more broadly with all affected New Zealanders. All amendments should be comprehensively assessed against the objectives of determining the

[1] *Regulatory Impact Statement: Proposed changes to the Crown Minerals Act 1991*, Ministry of Business, Innovation and Employment (MBIE)

least-cost approach to achieving a low emissions future for all New Zealanders. We expand on these points below.

First Gas' interest in this Bill

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 long-life 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 business is regulated under Part 4 of the Commerce Act 1986.[2]

GSNZ is an affiliated company that owns the underground gas storage facility at Ahuroa in Taranaki. This facility stores gas on behalf of users that need flexible energy supply (for example to support intermittent renewable electricity generation) and has the capacity to store as much energy as New Zealand's hydro lakes. GSNZ has also announced its acquisition of the Rockgas LPG business, that has around 90,000 customers across the country.

We have reviewed the Bill and Regulatory Impact Statement (RIS) and are concerned that insufficient thought has been given to the Bill's impact on energy consumers and future options for decarbonising New Zealand's energy system. For this reason, we feel it is essential that businesses such as ourselves speak, to provide the Select Committee with this perspective.

Bill detrimental to energy consumers across New Zealand

This Bill is likely to have a detrimental impact on both gas and electricity consumers. This is hugely concerning and should be examined further by the Select Committee.

The RIS states that the Bill may increase the risks around the affordability of gas. In real terms, this means that 282,000 industrial, commercial and residential gas customers throughout the North Island will face increased costs in the short-to-medium term. These consumers use around 20% of New Zealand's primary energy supply and generate thousands of jobs. These consumers may also face additional capital costs in the medium term if they switch prematurely to other energy sources due to a reduction in available gas.

The RIS also highlights that the Bill may potentially affect the affordability of electricity. It is well understood that gas plays a key role in supporting electricity supply during dry years, and this role is expected to continue over at least the next 15 years. The use of gas provides considerable security of supply benefits, as well as contributing to a more diverse and resilient energy supply overall. The Productivity Commission has stated that the move to replace gas with renewables in electricity generation under current technology and costs "will likely entail an increase in wholesale electricity prices."[3] A rise in electricity prices, if substantial, could dissuade the adoption of emissions-reducing technology in process heat and in transport, as well as increasing costs throughout the economy.[3] Many customers will not be in the financial position to purchase technologies and new appliances that enable them to reduce their emissions.

We consider that introducing a Bill that increases the cost of energy conflicts with the Government's own objectives. The Minister of Energy has publicly stated that this Government "will put the well-being and living standards of New Zealanders at the core of everything we do."[4] This Government has also established the winter energy payment to tackle the growing level of energy poverty. Introducing a Bill that will likely increase costs (for little benefit) will only exacerbate energy poverty – further impacting the 103,000 households[5] who are already struggling with power costs.

Introducing a Bill that impacts on energy affordability, without a clear transition plan for affected communities, risks destroying political and public appetite for tackling climate change. This is evident in Australia where frustration with increasingly high electricity and gas prices, has led to the government shifting its focus to bringing down prices and ensuring reliability, rather than cutting

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[2] For further information on First Gas, please refer to our website: www.firstgas.co.nz

[3] Page 400, *Low-emissions economy – Final report*, August 2018, Productivity Commission.

[4] Hon Dr Megan Woods, speech to the New Zealand Petroleum Conference, 27 March 2018, https://www.beehive.govt.nz/release/megan-woods-petroleum-conference-speech

[5] Page 4, *Electricity Price Review – First report for discussion*, 30 August 2018, https://www.mbie.govt.nz/info-services/sectors-industries/energy/electricity-price-review/consultation/first-report.pdf

emissions and progressing the National Energy Guarantee. State governments are now considering state-led measures, due to the absence of a nationally-agreed direction on climate change.[6]

The cost of energy is becoming an increasing concern for New Zealanders. There is considerable media commentary about the threat of rising petrol prices[7] and a Consumer NZ 2018 survey found that 65% of people surveyed were concerned or very concerned about their power costs.[8] These valid concerns need to be managed to ensure ongoing support for climate change policy.

Bill at odds with Government's broader approach to addressing climate change

We are concerned that this Bill appears to have been developed in isolation from the Government's broader approach to addressing climate change. The Bill does not reflect upon the findings of the Productivity Commission's final report, Transpower's *Te Mauri Hiko* report, the Zero Carbon Bill or recent proposed amendments to the Emissions Trading Scheme (ETS).

Recent reports show that gas is likely to have a role extending out to at least 2050. The Productivity Commission's modelling across all six scenarios, found that there is at least some fossil-fuelled electricity generation required in 2050 to ensure resource adequacy (1 – 11 TWh).[9] Transpower's analysis also showed that electrification will only replace 40% of gas as industrial fuel by 2050. That leaves over half of industry in New Zealand still reliant on gas by 2050.

The development of this Bill is at odds with the institutional findings from the Productivity Commission's report and the discussion around the Zero Carbon Bill. A robust statutory frame work for addressing climate change requires policy coherence with the goal, consistent policy through time and cross-party support. This Bill fails on all accounts.

The lack of due process, open consultation and general transparency around the Bill's development is also alarming. There was no consultation prior to the April 2018 announcement and the RIS notes the lack of consultation feeding into the Bill. The Government has also elected the Environment Select Committee to consider the Bill, rather than the Economic Committee, which Standing Order 188 says should handle Crown mineral matters. First Gas notes that the process for this Bill conflicts with the more open approach the Government is taking for other issues, setting up working groups to get broad input and feedback (e.g. consultation on the zero-carbon bill).

It is also disconcerting that the Government is running multiple workstreams on the Crown Minerals Act (CMA). There was a CMA Bill introduced in April 2018,[10] this current Bill and a further review signalled in the RIS ("tranche two"). This is a piecemeal approach to amending a major Act. There is a lack of transparency around what issues will be dealt with via each Bill, and how the purpose of the Act will be affected by each subsequent amendment. In addition, we note that the CMA doesn't currently consider the sequestration of gas or carbon dioxide, but the Act may need to be amended if New Zealand wishes to capitalise on the opportunities possible from carbon capture and storage.

Bill reduces optionality of using natural gas to support New Zealand's transition

First Gas strongly believes that natural gas infrastructure provides a flexible, resilient way to transport and store energy, and considers that natural gas can be an efficient, cost-effective solution for hard to treat emissions areas (i.e. process heat). There are number of opportunities for the country to make emission reductions in the short-term. Our submission to the Productivity Commission noted the potential for a 120,000 reduction in CO_2 emissions from substituting natural gas for coal in North Island industrial process heat plants.[11] This Bill provides a chilling effect on this opportunity, seeing business look to continue their use of coal until a more certain policy environment emerges or future technologies develop.

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[6] http://newstrendweb.com/neg-is-dead-states-go-it-alone-on-energy-policy/ and http://newstrendweb.com/explained-how-to-understand-australias-new-energy-mess/

[7] *Petrol prices the big risk for Government right now*, 7 October 2018, https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12136863

[8] *Energy provider survey*, Consumer NZ, https://www.consumer.org.nz/articles/energy-providers

[9] Page 397, Productivity Commission final report.

[10] Crown Minerals Amendment Bill 47-1, https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_77940/crown-minerals-amendment-bill

[11] Low-emissions economy, First Gas submission to the Productivity Commission, 2 October 2017, http://firstgas.co.nz/wp-content/uploads/Productivity-Commission_Low-emissions-economy-Oct-2017.pdf

First Gas and Powerco have engaged Vivid Economics from the United Kingdom to help us understand the role that gas pipeline infrastructure could play in a low-emissions economy. Vivid Economics is looking at potential scenarios for the future use of the gas network, building on the considerable scenario work undertaken to date in New Zealand. The report on this work will be released before the end of the year. One scenario we are exploring is using the existing pipeline network to transport "green gas" – hydrogen, biogas, or blends of these zero carbon fuels with natural gas. The future for zero carbon gas is exciting – with countries like Japan, Korea, and the United Kingdom currently spending billions of dollars on research and commercial deployment of hydrogen. This Bill risks shutting off this option for New Zealand by reducing investment in gas infrastructure and creating considerable risk about such an investment.

Reducing the role of gas in our energy system prematurely may also slow down or disincentivise exploring other positive options for reducing emissions, such as carbon sequestration.

Bill undermines investor confidence and damages New Zealand's reputation

The Government has created considerable regulatory uncertainty by disregarding due process when introducing this Bill and providing limited opportunity for public comment. In our view, this uncertainty will translate to an increase in the cost of capital and cost of debt that infrastructure companies face when seeking to invest in New Zealand. The increased uncertainty around the future role of gas will impact on the decisions we make around pipeline expansion and reinforcement. Organisations such as BusinessNZ share our concern on this Bill noting:

> *"This is a strong signal to investors that they will respond to immediately, not some time in the future. All plans, current and future, will now be reconsidered in light of this decision, especially when combined by the prospect of a higher future carbon price."*[12]

We consider that this Bill will also damage New Zealand's reputation as a country with a "stable and predictable regime" with "transparent governance providing certainty for investors".[13] First Gas also believe that the perception of regulatory risk may extend beyond simply the oil and gas sector.

No consideration given to impact on regulated gas businesses

Due to the rushed process, no consideration has been given to the impact of the Bill on regulated gas pipeline businesses (GPBs) and subsequently how this may impact the end consumer.[14] Our returns are currently regulated by the Commerce Commission, who sets our price path (revenue) by considering numerous factors such as our asset base, market risk and cost of debt. This Bill may ultimately truncate the life of gas pipeline assets, reducing the period over which we can recover the costs of these assets. This may consequently lead to potential increases in costs to gas consumers, above that discussed above. The decision also introduces more risk to regulated GPBs (in comparison to regulated electricity businesses), yet this is not reflected in our regulatory settings.

We are not aware that this Bill has been discussed with the Commerce Commission, nor considered in the RIS. The impact on regulated gas businesses and consequently the cost impact on gas consumers is a matter we recommend is factored into the Bill's analysis.

Proposed way forward

Given the concerns discussed above, First Gas strongly recommends that the Select Committee halt consideration of this Bill.

We consider that the Government should undertake a more robust review of the Crown Minerals Act, as signalled as "tranche two" in the RIS. This review should look at the purpose of the Act within the context of the 2050 zero carbon target, the Government's proposed ban of offshore exploration, and any other matters that have been excluded from this Bill (i.e. enabling carbon sequestration). The Government should run this review following due process and within standard timeframes and provide all parties with an opportunity to comment on amendments.

[12] *Petroleum ban - wrong tool for right goal*, BusinessNZ Energy Council media release, 12 April 2018, https://www.bec.org.nz/all-media/news/media-releases/petroleum-ban-wrong-tool-for-right-goal

[13] New Zealand Petroleum and Minerals website, https://www.nzpam.govt.nz/doing-business/why-invest/

[14] There are four gas pipeline businesses in New Zealand. First Gas has transmission and distribution pipelines, while Powerco, Vector and GasNet are distributors only.

It is essential that any decisions are backed with robust evidence and broad consultation to determine the least-cost approach to achieving a low emissions future for all New Zealanders. Establishing transition plans for affected sectors and communities at the offset are also key elements to enable and manage change of this magnitude.

To confirm our time to appear before the Select Committee, or to discuss any questions regarding this submission, please contact Karen Collins, Regulatory Manager, on 027 472 7798 or via email at karen.collins@firstgas.co.nz.

Yours faithfully

Paul Goodeve
Chief Executive Officer