

16 July 2019

Dr Deborah Russell
Chairperson
Environment Select Committee
Parliament Buildings
WELLINGTON

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Dear Dr Russell

Climate Change Response (Zero Carbon) Amendment Bill

This is First Gas Limited's submission on the *Climate Change Response (Zero Carbon) Amendment Bill* (the Bill), that was referred to the Environment Select Committee in May 2019. Nothing within this submission is confidential.

Summary of key points

First Gas supports the introduction of the Bill. We see this Bill as a key measure to address climate change and it provides the framework towards the goal of net zero emissions by 2050. Our submission:

- Supports:
 - The creation of an independent Climate Change Commission and the setting of emissions budgets, to establish a stable environment for addressing climate change;
 - A well-functioning Emissions Trading Scheme (ETS) to incentivise businesses to lower emissions and adopt lower-emissions technologies; and
- Recommends:
 - Explicit consideration of *all* options when meeting emissions budgets in the short-term, to ensure the use of any and all technology and energy sources that will bring down emissions quickly;
 - That the first scheduled review of the target be brought forward, to ensure emission reductions are being achieved by what is available now, rather than being delayed by long-term plans to shift technology and assets; and
 - The Climate Change Commission is explicitly required to enable public input at any time, to share knowledge and test assumptions about changes to technology and practices that can enable New Zealand to reach the targets.

We expand on these points in the sections below.

About First Gas

First Gas operates 2,500 kilometres of gas transmission pipelines and more than 4,700 kilometres of gas distribution pipelines across the North Island. These gas infrastructure assets transport natural gas from Taranaki to major industrial gas users, electricity generators, businesses and homes, and transport around 20 percent of New Zealand's primary energy supply. Our distribution network services approximately 63,000 consumers across the regions of Northland, Waikato, Central Plateau, Bay of Plenty, Gisborne and Kapiti.

The First Gas Group also owns energy infrastructure assets across New Zealand through our affiliate Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns the Ahuroa gas storage facility and Rockgas.

The Ahuroa gas storage facility (trading as Flex Gas) can store up to 18PJ of gas, with expansion planned over the next two years to increase the injection and withdrawal rates of the facility. Rockgas has over 80 years' experience providing LPG to over 90,000 customers throughout New Zealand.

Support creation of independent Commission and emissions budgets

First Gas applauds the Government for making climate change action a priority and supports New Zealand's goal of net zero emissions by 2050. We believe the Bill provides a framework to enable effective climate change policies to be introduced. In particular, we support:

- The introduction on an **independent Climate Change Commission**. This Commission will provide valuable input into the climate change discussion, by promoting transparent and well-informed decision making around achieving the 2050 target; and
- The introduction of **emissions budgets**. These will publicly signal the emissions reduction pathway towards the 2050 target, providing a degree of certainty and predictability to New Zealanders.¹

We also support the prudent step of ensuring that the emissions budgets may be revised (section 5ZB) where there are significant changes in circumstances that would have a substantial impact on the current or future budget periods.

We recommend that the independent Climate Change Commission be established under and follow the principles of "good governance", as outlined by the Auditor General.² Ensuring its independence and integrity are critical success factors for this new Commission.

Importance of the ETS in incentivising emissions reductions

First Gas supports the inclusion of clause 5N(2) of the Bill that enables the Commission to recommend unit supply setting for the New Zealand ETS. We strongly believe that a credible emissions price and the ETS should be the primary lever for incentivising businesses to invest in lower-emissions technology. A credible emissions price (today and into the future) provides parties with certainty (particularly with investment decisions), promotes the right behavioural changes, and encourages research and investment in options with lower emissions.³

We believe that the recent amendments proposed to the ETS are a positive step, and in conjunction with this Bill, will provide the credible emission price sought by participants.

Importance to consider all options to reduce emissions in short-term budgets

First Gas supports the Government's desire to transition to a net zero-carbon future and we recognise that in the long-term, this must and will see a reduced reliance on fossil fuels.

However, it is indisputable that very rapid emission reductions can be achieved with the assets we currently have. For example, we can switch types of fossil fuels, such as coal to gas, and gas to gas blends (hydrogen or biogas). Therefore, we recommend that in the short-term, particularly for the first 2 – 3 emissions budgets, that the Government consider all emission reduction options when it forms its emissions reduction plan (section 5ZD of the Bill).

The Interim Climate Change Commission (ICCC) has recommended⁴ an energy future in which gas, and the gas supply network, continues to play a role. Even its most advanced option has gas playing a critical role supporting the variability in supply and costs of electrification.

We can achieve a steady emission reduction path that takes account of the nation's practical and financial constraints by:

- Using gas to maintain security of energy supply (it can fill supply shortfalls created by weather and seasonal dependency of renewable sources), providing resilience to hazards like earthquakes, and to keep prices down while the price of renewable generation steadily falls;

¹ We discussed these points in our submission on the Ministry for the Environment's *Our Climate, Your Say* paper, 19 July 2018, <https://firstgas.co.nz/wp-content/uploads/First-Gas-Submission-on-the-form-of-the-zero-carbon-bill.pdf>

² Good governance, Controller and Auditor -General website, <https://oag.govt.nz/good-practice/governance>

³ As outlined in our submission to MBIE and EECA on *Process Heat in New Zealand*, 22 February 2019, https://firstgas.co.nz/wp-content/uploads/First-Gas-submission_Process-Heat_Feb-2019.pdf

⁴ *Accelerated Electrification*, 30 April 2019, Interim Climate Change Commission.

- Immediately converting industrial heating from coal to gas, halving CO₂ emissions;
- Utilising blends of gas (either hydrogen or biogas), reducing the emissions associated gas usage by existing customers and businesses;
- Providing an energy source for households, so they can use electricity to power electric vehicles; and
- Keeping options open for the invention of new and better ways of generating molecular as well as electron-based energy.

In our submission to the Productivity Commission,⁵ we have outlined the emissions savings possible in the near-term by substituting natural gas for coal in North Island industrial process heat plants and running Huntly Rankine units on gas rather than coal. If these two conversion opportunities had occurred during financial year ending June 2017, carbon emissions would have been 200,000 tonnes less than they were. To place these quantities of emissions in context, 200,000 tonnes equates to the annual emissions of 54,000 cars.

These savings can be achieved in early emission budget periods, while new renewable sources are built, their output gets cheaper to use and new technologies develop and become mainstream.

Recommend an earlier first review of target

First Gas recommends that section 5(P)1 of the Bill be amended so that the first review of the 2050 target is brought forward. While an aspiration target is needed to drive the scale of action required, we agree with Business New Zealand⁶ that there is still considerable uncertainty around:

- The technological advances that will be achieved or arise;
- Whether we have set the target too high and find that it isn't achievable, or conversely too low,
- Unforeseen consequences of current trends, policies, investments and taxes; and
- What level of action other jurisdictions will take in line with their commitments

We support the amendments proposed by BusinessNZ in their submission on this Bill, that will add an additional clause to section 5(P)1 to specify an earlier date for a review. We consider that a more appropriate timeframe would be "by 31 December 2025".

Recommend a system for initiation of expert and public input to Climate Change Commission

The Bill sets out that the independent Commission can apply its expertise and judgement to the task of recommending and advising the Government and nation on emission reductions. However, the Bill is silent on the avenues for experts and public to bring knowledge, information and experience to the attention of the Commission. That means the Commission, despite its expertise, cannot benefit from the intense interest of the public in this work. It will not learn of opportunities, nor risks.

This is a major omission for a Bill of such vital importance. Climate Change is an issue for all New Zealanders. We therefore recommend that a clause be added to the Bill to make it explicitly clear that the Commission will be expected to set up a system to take unsolicited public input.

Contact details

To discuss any points raised in this submission, please contact Karen Collins, Regulatory Policy Manager, on 027 472 7798 or via email at karen.collins@firstgas.co.nz.

Yours faithfully



Paul Goodeve
Chief Executive Officer

⁵ *Low-emissions economy*, First Gas submission to the Productivity Commission, 2 October 2017, https://firstgas.co.nz/wp-content/uploads/Productivity-Commission_Low-emissions-economy-Oct-2017.pdf

⁶ Page 10, BusinessNZ submission to the Ministry for the Environment on the "Our Climate Your Say" discussion document, 19 July 2018.