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Hon David Parker, Minister for the Environment
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Backing the transition to a thriving low carbon economy for Aotearoa New Zealand

As companies working in the electricity supply sector, we recognise and fully support the urgent need to take bold action to achieve the goal of net zero carbon emissions by 2050. The delivery of secure, affordable and low carbon energy is critical for a successful transition and we want to support this outcome for Aotearoa New Zealand.

Government and industry have worked in partnership to deliver a robust energy system. This has supported investor confidence to commit long-term to a diverse range of assets, including several in partnership with iwi/Māori. The investment challenge from the upcoming transition is the largest to have faced the sector since market commencement. Market discipline and principles, policy and regulatory certainty, and continued partnership between industry and government are critical for investment in our transition moving forward.

This year will be crucial for decisions that will shape the transition for Aotearoa New Zealand. We support the work of the Climate Change Commission (CCC) and their key recommended actions to unlock material emission reductions and ensure a fair, equitable, and inclusive future. We support the CCC view that “wider electrification of energy use is an essential part of the transition” and we are mobilising as a sector to deliver this.

The purpose of this open letter is to state our collective commitment to supporting Aotearoa New Zealand’s emission reduction goals and to identify areas of key focus for the sector and government to continue this shared legacy and support a just transition to a low carbon economy.

1. We are actively investing to deliver a low carbon future

While we agree with the CCC that the government’s renewable electricity target should be treated as aspirational and is “part of a bigger energy picture”, we also acknowledge that achieving the goal of net zero carbon for Aotearoa New Zealand will require innovative solutions across a broad range of low carbon technologies and collaboration along the electricity supply chain.

Around \$2bn is currently committed to the construction of new renewables, equivalent to 8% of total annual generation. We are confident that with this and further expected near-term investment, renewable generation will be around 95% in the next five years. Further, enough renewable electricity is currently consented to meet the demand from electrifying the entire light transport fleet. As technology costs continue to rapidly decline, we expect that these investments will positively impact energy equity into the future.

Transpower is progressing transmission investments to unlock new renewables. Distributors plan to invest more than \$10 billion over the next decade in their networks. Distributors and retailers are continuing to invest and test new digital, data driven platforms which integrate distributed technologies and manage costs for consumers. There is also increasing focus on how to enable more flexible demand side energy response in the market and even how to remove carbon from existing fuels.

These new technologies and approaches will be required to meet the decarbonisation challenge and will create new jobs and employment pathways for skilled workers across the regions. Significant opportunity exists for industry and government to work collaboratively to identify these future skills and invest in comprehensive training for the next generation of professionals in the low carbon technology sector.

2. We want to work constructively on options to continue to ensure security of supply

The electricity market currently delivers on security of supply. As the industry invests in new low carbon technologies, we want to ensure that energy supply remains secure.

Although the sector has expressed concerns on the potential challenges specific to the Lake Onslow proposal, we want to constructively engage with the government on the range of options that could enable the longer-term security of supply during the transition while delivering fair and equitable outcomes for customers, communities and stakeholders.

We welcome the opportunity to engage with the government to consider future low carbon technologies to manage security of supply through the New Zealand Battery Project (NZBP). We support the NZBP adopting an options value approach to assess the portfolio of technologies and initiatives that could deliver additional storage or demand response over time. Critical to this assessment is the need to evaluate the potential impact of technological change over the 30-year period to 2050 when emissions reductions need to be delivered.

There are many prospective technologies which today appear niche and expensive but have potential longer-term to deliver cost-effective abatement and support the just transition to a low carbon future. These include both grid-scale and decentralised generation and storage technologies, demand response, alternative fuels and innovative methods to remove carbon emissions from existing fuels.

We appreciate MBIE officials' proactive engagement with industry through the NZBP and the willingness to seek feedback on designing the process and frameworks for evaluation. We look forward to continuing this engagement.

3. We support efficient price signals and strengthening the emissions trading scheme

We strongly support carbon pricing through the Emissions Trading Scheme (ETS) as a key lever to deliver least cost emission reductions across the economy. We endorse the recommendations from the CCC on strengthening the ETS settings.

We support price signals via the ETS driving asset investment and retirement decisions, rather than supporting or banning specific technologies or fuel types. Markets are highly adaptable and will respond rapidly to signals. Intervention can foreclose options that may be required to maintain balance with affordability and security of supply which are necessary to ensure a just transition.

Complementary measures to support the ETS should be carefully considered. These should target areas where current policy or market settings will perversely lead to higher emissions if not proactively addressed. For example, we endorse the recommendations from the recent Concept Consulting / Retyna report and the complementary policies it outlines to support electric vehicle uptake.

4. We want to help our regulatory frameworks support rapid decarbonisation

We want to work collaboratively on agile and flexible regulatory frameworks and policy settings that accelerate the transition to a low carbon economy and deliver fair, equitable and inclusive outcomes. The current reform of the Resource Management Act is a key example where clear recognition of Aotearoa New Zealand's decarbonisation goals will improve certainty for existing and future electricity generation and network infrastructure investments.

Additional opportunities are available in transmission and distribution investment settings, efficient pricing structures, data sharing arrangements and the use of smart technologies and demand response. For example, enabling smart charging of electric vehicles (EVs) will be important to integrate EVs into electricity networks in an equitable way. The CCC analysis estimates that a household with an electric vehicle will on average realise cost savings of around \$1,000 per year.

Various government agencies are working on these issues and we believe there are material opportunities for government and industry to coordinate to support rapid decarbonisation.

5. We endorse the development of a shared national energy strategy

We fully support the CCC's recommendation that Aotearoa New Zealand needs an overarching energy strategy. This would provide greater clarity and coordination on priority initiatives to deliver decarbonisation across the entire economy. We would value the opportunity to work collaboratively across all stakeholders in the sector on such an important document. The strategy could help address key issues such as:

- > the role of non-renewable energy resources in managing a just transition to a low carbon economy;
- > how a national renewable energy target could complement existing policy objectives;
- > policy and regulatory frameworks adapting to enable and promote the low carbon future;
- > supportive frameworks for transmission and distribution investment to unlock areas of future renewable investment; and
- > how the low carbon transition can support regional economic development, iwi/Māori and ensure vulnerable consumers are best protected.

We welcome further opportunities to engage with the government, the wider sector and other key stakeholders on the above priority areas. The industry is already mobilising to transition to a low carbon economy at pace. We are committed to working collectively to enable the delivery of New Zealand's climate change commitments while continuing to ensure equitable and secure supply for households and businesses.



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