



## GREYMOUTH PETROLEUM

25 February 2020

Energy Markets Policy Building, Resources and Markets  
Ministry of Business, Innovation & Employment  
PO Box 1473  
Wellington 6140

By email: [energymarkets@mbie.govt.nz](mailto:energymarkets@mbie.govt.nz)

Dear Sir/Madam,

### **RE: Discussion Document - Accelerating renewable energy and energy efficiency**

Greymouth Petroleum (**Greymouth**) is a New Zealand (**NZ**) owned and operated petroleum production group headquartered in Auckland, with operations in the Taranaki. Greymouth is active throughout the upstream value chain, most notably in the development, production, and marketing of hydrocarbons. Greymouth ranks second amongst NZ owned petroleum production companies when measured in barrels of oil equivalent produced per day (today supplying circa 10% of NZ daily gas production) and on a remaining reserves basis (holding circa 17% of NZ gas reserves measured on a 2P basis).

Greymouth can work with this Government's decarbonisation objectives. Greymouth considers this Government's plan to transition to a sustainable economy should be a just transition, wherein the nation's climate policy objectives are firmly aligned with those backbone NZ industrial and commercial enterprises which drive the nation's economic prosperity.

Greymouth welcomes the opportunity to provide this written submission on the Accelerating renewable energy and energy discussion document (**DD**) as issued by the Ministry of Business, Innovation & Employment on 19 December 2019.

Greymouth's submission specifically addresses the potential policy option to "Phase down thermal baseload and place in a strategic reserve" as a means to better accelerate investment in renewable electricity generation investment - option 8.6 of the DD (**Option 8.6**).

Greymouth does not support Option 8.6 which includes (a) placing thermal baseload generation facilities in a ring-fenced reserve, and (b) the introduction of a strategic reserve mechanism that regulates when thermal baseload facilities could offer into the wholesale electricity market. Rationale as follows:

- **No justification for Government intervention:** Proposals to accelerate renewable energy should be premised on the objective of reducing greenhouse gas emissions. The Government should not pick winners to reduce emissions – which is the case where the operation of thermal baseload is regulated and restricted. A key differentiator of why NZ is one of few countries in the OECD to have achieved affordable and clean electricity is that electricity generation is determined not by policy and subsidies but by competition between technologies on a level playing field beyond the reach of politics. The NZ electricity system is performing well and there is no problem that justifies such political response

- **Distortion of wholesale electricity price signals:** The operation of a regulated electricity asset by a non-commercial operator is likely to disturb market pricing. Market pricing is essential to provide a real-time measure of the social value of electricity, encourage energy conservation and signal demand for new investment. The latter is important to allow capital providers and project developers the signals to provide the additional circa 5,500 MW of new electricity capacity by 2035 – as deemed necessary by the Interim Climate Change Committee in its report dated April 2019. Industry leaders advise that a real market price in a well-regulated market is a fundamental tool to help decarbonise the NZ economy<sup>1</sup>
- **No favourable international precedent:** The introduction of Government-backed capacity or reserve contracts means that Government would have a major influence in determining the level of generation investment. This intervention should be viewed as “quasi re-nationalisation” of the electricity generation sector. An official review of the UK energy market in 2017 opined that overlapping interventions made it impossible to understand the effects of policies, and far more decarbonisation could have been achieved more quickly and at much less cost with less intervention
- **Regulation does not encourage innovation:** Academic research highlights that competitive markets will deliver the best results for consumers through innovation and adaption to evolving customer demands. This is best achieved by Government providing oversight but not active sector involvement. The NZ Productivity Commission report dated August 2018 highlighted that Transpower believes innovation is one of the key planks to provide for security of electricity supply
- **Accelerated demise of the NZ gas industry:** restrictions on gas producers’ ability to make commercial arrangements with a key sector of gas demand is a significant disincentive to invest. This will likely lead to the importation of natural gas and the continued use of coal for thermal generation

Greymouth considers that an efficient and well-functioning electricity system will play a central part in the transition to a low-emissions economy. Greymouth is aligned with the Government in ensuring that the NZ electricity system is resilient, reliable and delivers affordable energy. However, Greymouth submits this is best achieved by the following Government initiatives:

- **Technology neutral policy adoption:** so that all forms of electricity generation compete in an open and free market without Government intervention. Such credible policy setting would add to business confidence and support decisions to invest in long lived electricity generation assets
- **Continuance of a cap-and-trade system:** maintain the NZ Emission Trading Scheme (NZ ETS) as the primary platform to decarbonise. Price signals under the NZ ETS guide public and private stakeholders for their consumption, investment and production decisions. The UK gas and electricity markets regulator concluded in 2018 that such tool, and the resultant carbon price, has been effective in both reducing emissions and delivering value for money
- **Reduce the red tape surrounding the gas industry:** ensure policies are congruent with the development of natural gas resources (e.g. repeal the offshore oil and gas exploration ban, retain economic development as the central pillar of the Crown Minerals Act 1991)

Greymouth is available to meet to discuss this letter.

Yours sincerely



**Andrew McGavin**

Business Development Manager

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<sup>1</sup> New Zealand Herald article titled “Neal Barclay: A real market for carbon will fight climate change” dated 12 February 2020