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Energy Markets Policy Building,  
Resources and Markets  
Ministry of Business, Innovation & Employment

Submitted by email to [energymarkets@mbie.govt.nz](mailto:energymarkets@mbie.govt.nz)

**Submission on the Accelerating renewable energy and energy efficiency discussion document**

OMV New Zealand Limited welcomes the opportunity to make a submission on the *Accelerating renewable energy and energy efficiency* discussion document.

**OMV's Business Interests in New Zealand**

OMV is a major energy provider for New Zealanders. Our business is helping to meet the energy demands of New Zealanders, now and into the future, in economically, environmentally and socially responsible ways. Globally, natural gas is the quickest and most affordable way to reduce global CO2 emissions from the power and petrochemical sectors and is an important component of a sustainable global energy mix.

At OMV we work to international best practice standards to protect the environments in which we operate and support regulatory measures that balance economic development with environmental protection.

OMV operated ventures currently produce around 50% of total New Zealand gas production via the Maui and Pohokura gas-condensate fields. OMV itself produces more than 40% of the total New Zealand natural gas production and a significant proportion of total New Zealand condensate production. The company directly employs some 350 staff.

**Context & Drivers**

OMV recognises and supports the objectives in the *Climate Change Response (Zero Carbon) Amendment Act 2019* with the primary tool for achieving the objectives being the NZ ETS scheme.

As an international energy company OMV has a global appreciation for the context and challenges associated with emissions reduction. OMV also sees first-hand the large amount of energy poverty that still exists globally and the importance of energy security in a politically uncertain world, and how these considerations compete with environmental concerns.

In this context it is important that the New Zealand government's efforts to put in place tools and processes to drive down New Zealand's domestic emissions do not heighten energy insecurity; deliver unacceptably expensive energy prices or unintentionally increase emissions either domestically or internationally.

Given the complexity and highly interconnected nature of the energy system, the potential risks of unintended consequences from regulatory intervention is high.

**OMV Upstream**

**Gabriel Selischi**  
SVP Australasia

Tel. +64 4 910 2500  
Fax +64 4 910 2504  
[gabriel.selischi@omv.com](mailto:gabriel.selischi@omv.com)

OMV New Zealand Ltd  
Level 20  
The Majestic Centre  
100 Willis Street  
Wellington, New Zealand

Registered Office:  
Level 20  
The Majestic Centre  
100 Willis Street  
Wellington, New Zealand

[www.omv.com](http://www.omv.com)

In OMV's view the best way to this risk is best mitigated through an appropriately structured ETS scheme with other government interventions being applied only to address well demonstrated market failure.

## **OMV and PEPANZ**

As a member of PEPANZ, we support the PEPANZ submission in general and it is not our intention to repeat that submission. Rather, this submission serves to highlight a few key points from OMV's perspective.

## **Overview Comments**

OMV advocates for emissions reductions to be undertaken in the most economically-efficient manner that takes into account international best practice whilst also addressing the components of the Energy Trilemma for New Zealand's energy supply. This position will be well understood as one that seeks to minimise the cost impact on individuals, business, the economy and society as a whole. OMV also sees that choosing the most economically efficient reduction pathways will be crucial for achieving the carbon reduction aims of the New Zealand government.

There is an implied social "budget" for expenditure on emissions reductions; that is, there is a limit to the price that society is willing to pay today to address the adverse impacts of climate change in the future. That price depends on many things; culture, politics, level of economic development, and our understanding of climate change risks – moreover, these factors can markedly change over time. While the idea of a social "budget" is conceptual and cannot be determined quantitatively, when the budget is reached or exceeded the public acceptance of emissions related costs will diminish.

When emission reduction measures are taken with maximum economic efficiency it means that the maximum amount of emissions can be reduced before the implied societal budget is reached.

OMV views the market based solutions as the most likely to discover the least cost pathways to emissions reductions. OMV supports the proposed NZ ETS (as amended by The Emissions Trading Reform Bill) as the primary mechanism for achieving market reductions.

In the case of a clear demonstration of market failure, the government should consider specific interventions. However, many of the interventions recommended in the discussion document fail to sufficiently make the case for market failure and some of the proposed interventions are risky and expensive.

## **Option 8.6: Phase down baseload thermal generation and place in strategic reserve**

An area of particular significance to OMV is Option 8.6 of the discussion document to "*Phase down baseload thermal generation and place in strategic reserve*". It is not at all clear that there is a market failure with respect to the phase down of base load thermal generation. Over the last approximately 5 years over 1 GW of thermal base load capacity has been retired in the New Zealand energy system - with strong indications that the trend will continue because of ongoing and significant investment in renewable generation displacing baseload thermal generation. We note that many New Zealand electricity generators have long been signalling a continued phase down of baseload thermal generation, and the anticipated increase in carbon prices will likely reinforce these trends.

Further to this point, the discussion document notes that similar interventions have been tried in other countries with deep liquid electricity and gas markets. Where deep liquid gas markets exist, it is possible to imagine plant being kept in reserve and having access to the required fuel from the spot gas market when required. However, it is important to note that the New Zealand gas market is not sufficiently deep for electricity producers to fully fuel their plants at short notice or times of increased demand. Rather, given the small size and concentration of the New Zealand energy market, large quantities of gas are generally contracted well in advance. It is OMV's position that the terms of a gas supply contract for a strategic reserve participant would likely be very difficult to secure.

This potentially raises the spectre of a cascade of regulatory intervention required to make this option work; to keep gas production idle, to force investment in such idle capacity etc. Alternatively, the government may consider pulling gas out of existing commercial contracts. In OMV's view all these interventions would be fraught with difficulties. For example, one possibly lesser understood risk is that, such a move would risk an increase in global emissions as the gas consuming facilities that are most likely to be affected by such interventions may migrate to higher emission intensive production overseas.

A strategic reserve for coal powered producers would likely not have the same fuel supply issues (as coal can be sourced from deep international markets and can be stored) but that could have the perverse effect of displacing gas generation in favour of higher emissions coal generation.

In summary, it is OMV's position that the proposed Option 8.6 in the discussion document risks addressing a problem that in our view does not exist and is likely to require significant additional legislative change throughout the energy supply chain to make it work.

### **Carbon Capture and Storage**

We note that the framing of the discussion document as *"Accelerating renewable energy and energy efficiency"* precludes a discussion about the possible role of emissions free oil and gas production and usage (e.g. via Carbon Capture and Storage). As far as we are aware there is no alternative forum where this technology is given the level of consideration given to the options outlined in this document.

Carbon Capture and Storage (CCS) has the possibility to help New Zealand to meet its emissions targets, support its petrochemical industry (which plays an important role in reducing emissions globally) and support a just transition for New Zealand.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Selischi', written over a horizontal line.

**Gabriel Selischi**  
Senior Vice-President, OMV New Zealand