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Energy Markets Policy
Ministry of Business, Innovation and Employment
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Overview

Refining NZ appreciates the opportunity to make this submission on the MBIE discussion document, 'Accelerating renewable energy and energy efficiency'.

Refining NZ is uniquely placed to comment on this consultation as for the past 17 years we have operated under a Negotiated Greenhouse Agreement (NGA) with the Government.

This agreement, the only one of its kind in New Zealand, places obligations on Refining NZ to meet emissions reduction targets. Under this agreement Refining NZ does not participate in the Emissions Trading Scheme but fulfils a range of other conditions and commitments. Our comments below reflect Refining NZ's practical experience in managing the types of activities that are outlined in this discussion document.

Reducing Refining NZ's emissions

Refining NZ's facility at Marsden Point is New Zealand's only oil refinery.

We supply approximately 40% of the total energy needs of New Zealand, 70% of the country's transport fuel needs and 100% of Auckland Airport's jet fuel. As an essential player in the energy sector, we recognise we have a significant role to play in helping New Zealand meet its climate change commitments and transition to a low carbon future. As set out below we have made significant gains in reducing carbon emissions and have advanced new solar, and hydrogen production projects.

Since 2003, when Refining NZ agreed our NGA with the Government, we have been on an emissions reduction path.

In the 17 years since the agreement was signed Refining NZ has invested around \$750 million in reducing energy/emissions intensity and making cleaner fuels. We have added new process technologies to reduce benzene and sulphur in our fuels and made a 20% reduction in our carbon intensity overall.

Currently we are in the planning process to develop the Maranga Ra solar farm at the refinery. This will be the largest utility solar farm in New Zealand and reduce our CO₂ emissions by a further 18,000 tonnes per annum, while providing the renewable energy needed for the potential manufacture of green hydrogen.

Refining NZ

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Accelerating renewable energy and energy efficiency

We agree with the assertion in the discussion document that; “Energy efficiency will be critical to meeting our climate goals and transitioning to a low emissions economy. Energy efficiency gains result in energy savings and support economic prosperity by diverting investment in new energy supplies, including electricity generation or transmission capacity.”¹

We support the high-level criteria for assessing the various options. We also agree it is important that any options should be assessed on whether they have an impact on greenhouse gas emissions, if there are wider economic effects, and whether there are additional administrative and compliance costs.

However, we also disagree with several proposals in the document and offer some alternative options for meeting the above goal in this paper. We also note some inconsistencies or inaccuracies in the data that is used to underpin some of the proposals.

The underlying data on possible greenhouse gas abatements in Appendix 2 of this document is based on a single global literature research project undertaken by one academic researcher. The recommendations from that document note, for example, that NZ Steel could reduce its emissions by optimising its steel blast furnace. But NZ Steel does not in fact operate a steel blast furnace. Similarly, assertions that 50 per cent of the energy emissions in oil refining could be reduced are erroneous, and we have not been consulted at all, prior to the report publication.

The low hanging fruit opportunities the report identified have already been successfully implemented, making very good gains. Incremental gains only are now feasible and would be at much higher costs. A greater level of engagement with industry is required in order to establish accurate and meaningful abatement potential.

Limited response

The response below does not address all the 117 questions in this proposal document but is focused on those that either affect Refining NZ, or where we have relevant experience that we feel could be useful in further developing these proposals.

Section 1: Addressing Information Failures

Option 1.1: Require large energy users to publish Corporate Energy Transition Plans and conduct energy audits.

As a general comment, we disagree with this option. As described in the discussion document, this option would impose a high compliance and administrative cost on businesses for very limited benefit.

Q 1.1: The proposal calls for “mandatory energy auditing every four years”², which does not align with the current five-yearly carbon budgeting cycle, or with annual financial auditing. An audit is a report to a defined scope, but there is no defined scope for what would be audited in this example.

¹ Ministry of Business Innovation and Employment (2019). Accelerating renewable energy and energy efficiency. P. 9 Available from www.mbie.govt.nz

² Ministry of Business Innovation and Employment (2019). Accelerating renewable energy and energy efficiency. P. 20 Available from www.mbie.govt.nz



The MBIE paper provides no compelling reason for why Government would need such detailed, commercially sensitive information on 200 firms, nor what it would use this data for.

Q 1.2: We do not support any of the parts in Table 3. We believe these proposals would add unnecessary regulation to a sector that does not require it.

The information that might be required for a four-yearly audit report is also complex and easily misunderstood. It would require an appropriate level of international expertise, which is likely to be costly and difficult to procure.

As much of the information would be commercially sensitive, for both Refining NZ and the appropriate specialist auditor, any reporting of data would need to be on an aggregated basis. Any move by MBIE to report individual-level data is likely to be strongly opposed by businesses.

The discussion document notes “the compliance costs are not expected to be significant for large energy users”³, however it gives no real indication of the level of detail required and how that information will be gathered, analysed and reported. Therefore, there is no basis for the above statement, and we believe this proposed process is likely to add significant cost for businesses.

Q 1.6: Yes. There is a major risk of definitional differences in scope of any reporting and report timing. It is unclear from this discussion document how any audit reporting would fit with the existing company reporting timeframes, or whether it would be by calendar year. With these uncertainties, it is highly likely any mandatory reporting would add unnecessary duplication and complexity for businesses.

Our experience

Refining NZ has 17 years' experience in working with successive governments and government agencies on an agreed plan that was jointly developed and during this time we have reduced our emissions by 20%.

This experience supports our view that it is more productive to work with business rather than to impose and enforce arbitrary overheads. The approach described in Section 3.2 of the discussion document is a better way of engaging with businesses, than using a large regulatory stick.

Section 3: Innovating and building capacity

Option 3.1: Expand EECA's grants for technology diffusion and capability-building.

Q 3.1 and 3.2: We agree that de-risking and diffusing commercially viable low-emission technology could be a focus of government support. We also agree there is a role for Government to support peer learning and on-site technology demonstrations.

However, any work on de-risking or peer learning would need to be focused on more widespread opportunities among smaller businesses.

For any large industrial companies, specialist expertise is required as their operations are often site-specific, and not replicated anywhere else in New Zealand. As such, emissions reduction strategies will be specific to those sites with very little relevance for other emitters.

³ Ministry of Business Innovation and Employment (2019). Accelerating renewable energy and energy efficiency. P. 21 Available from www.mbie.govt.nz

Option 3.2: Collaborate with EIH industry to foster knowledge sharing, develop sectoral low-carbon roadmaps and build capability for the future using a Just Transitions approach.

We agree there is a role for Government to play in “identifying feasible technological pathways for sectors to decarbonise,” and to “enable a first-principles investigation of long-term opportunities and challenges of EIH industries, then help to devise strategies with them to achieve low emissions goals”.

This approach is much preferred to that outlined in Section 1 of the discussion document as it is based on a partnership approach with businesses. We agree that any such approach would help ensure a better regulatory environment and plan for supporting infrastructure.

Q 3.3: We agree strongly that collaboration over enforcement is the right approach, as described in this section of the discussion document.

The development of low-carbon roadmaps should be industry-led, with Government supporting. This could lead to a common template across industries that may be useful for the Government to understand and summarise outcomes. It should include all aspects of a global supply chain.

However, we see no pressing need for a costly secretariat which would likely be duplicating roles being established already by the Climate Change Commission and other agencies.

Q 3.4: Given the lack of detail on 'Industry Transformation Plans' in the discussion document, it will be important to co-design an approach to these. Businesses may also find benefit in a partnership approach to developing carbon budgets and in their just transitions planning.

Section 4: Phasing out fossil fuels in process heat

As a general comment Refining NZ is of the view that over-regulation and/or regulator changes are a deterrent to investment and innovation. We do not support regulation or Government prohibition on specific types of process heat. The current carbon price, at around \$25 /t is already providing businesses with a clear market signal to investigate ways to lower their emissions (including switching between fossil fuels) and phase out uneconomic heating processes.

The potential approaches outlined in the discussion documents all seem to be placing potential regulation over the top of the ETS before the ETS has been given a chance to work in practice.

It is highly likely the current carbon price will continue to rise, giving further signals to business to continue on this path. As such, there is no need for additional Government regulation at this point in time.

Section 5: Boosting investment in energy efficiency and renewable energy technologies

“Initial analysis suggests that the total potential for emission reductions from cost effective clean energy projects in industry amounts to an estimated 2 – 3.5 Mt CO₂-e per year (as outlined in Appendix 2).”⁴

As noted in the introduction, the analysis that underpins the above statement is not based on a realistic understanding of current industry in New Zealand.

⁴ Ministry of Business Innovation and Employment (2019). Accelerating renewable energy and energy efficiency. P. 45 Available from www.mbie.govt.nz

Firstly, it assumes emissions reductions could be made by shutting down a non-existent blast furnace at the NZ Steel site, and secondly, it assumes Refining NZ will undertake a further series of major emissions reductions actions in the coming years. Over the past 17 years Refining NZ has invested around \$750 million in increasing capacity, reducing emissions and making cleaner fuels. This includes having already completed many of the actions that the abatement analysis suggests Refining NZ now investigate.

Q 5.1: We do not agree that additional regulation should be added over the top of the NZ-ETS. As noted, businesses will respond to a realistic carbon price, and make investment decisions based on that.

Q 5.3: When running a business, access to capital will often rely on a clear and consistent regulatory environment. In the absence of that, businesses may be reluctant to invest over the long term and investors may be reluctant to provide capital.

In recent months the Government has indicated through the EAF Review and the wider review of the allocation regime that industrial allocations of emissions credits may change. This has added regulatory uncertainty to large businesses, and as such, is signalling an uncertain future. In such an environment any investment case is made harder by industrial allocation policy uncertainty and other Government measures.

In the current policy environment, government engagement with industry about how to make an orderly transition to our low carbon future while contributing to New Zealand's climate change obligations, is needed and will help to engender confidence with investors.

Q 5.5: For large energy-intensive firms, the stability and predictability of industrial allocation settings is hugely important. In this light it is imperative the carbon price signal is not diluted by retrospective adjustments to alleged 'over-allocation'. This will deter future investment in emissions reduction.

Part B: Accelerating renewable electricity generation and infrastructure

We have a few general comments to make on Part B of the discussion document.

Option 7.1: Amend the National Policy Statement for Renewable Electricity Generation, including potential expansion of its scope to cover a broader range of renewable energy activities.

This option may be worth considering, particularly making the language more directive. However, given the wide range of activities that could be covered by this, the language used will need to be clear.

Any amendment would have to take into account the fact that gas-fired generation will continue to be important in the next two decades as New Zealand moves towards more renewable electricity generation. At present, gas plays an important role for times of peak demand, and under all scenarios that role will continue for some time.

Amending the NPS to exclude any new gas-fired generation could lead to unintended consequences that increase prices and volatility in the market.

Option 8.1: Introduce a Power Purchase Agreement (PPA) Platform.

We see limited benefit in the Government introducing a PPA Platform. As a member of the Major Electricity Users Group, Refining NZ is already investigating the option of a PPA to help bring forward the construction of new renewable generation.



Concluding remarks

As New Zealand's only oil refinery and the leading supplier of refined petroleum products to the New Zealand market we believe Refining NZ has an essential role to play as New Zealand transitions to a low carbon economy and we are advanced in making this happen as a business.

We are making investments in renewable energy and believe other businesses will continue to do this based on realistic carbon price signals.

Finally, we firmly believe regulatory settings need to be well-thought out and offer consistency for business. We trust that the Government will continue to work with businesses such as ours as we all work out the path towards a carbon zero New Zealand.

For Refining NZ

Paul Zealand
Managing Director