



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Energy and Resources
Title of Cabinet paper	Managing the phase out of fossil gas and opportunities to repurpose infrastructure for renewable gases: report back and proposed next steps	Date to be published	By 9 June 2022

List of documents that have been proactively released

Date	Title	Author
December 2021	Managing the phase out of fossil gas and opportunities to repurpose infrastructure for renewable gases: report back and proposed next steps	Office of the Minister of Energy and Resources
15 December 2021	Phasing Out Fossil Gas and Repurposing Infrastructure for Renewable Gases: Report Back and Next Steps DEV-21-MIN-0256 Minute	Cabinet Office
20 December 2021	Phasing Out Fossil Gas and Repurposing Infrastructure for Renewable Gases: Report Back and Next Steps CAB-21-MIN-0547.03 Minute	Cabinet Office

Information redacted

YES

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Some information has been withheld for the reasons of confidential advice to Government, and legal professional privilege.



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Phasing Out Fossil Gas and Repurposing Infrastructure for Renewable Gases: Report Back and Next Steps

Portfolio **Energy and Resources**

On 20 December 2021, following reference from the Cabinet Economic Development Committee (DEV), Cabinet:

Background

- 1 **noted** that on 6 April 2021, Cabinet invited the Minister of Energy and Resources to report back by the end of 2021 with advice on managing the phase out of fossil gas in the energy system, and on opportunities to repurpose fossil gas infrastructure for renewable gases [CAB-21-MIN-0099];
- 2 **noted** that Part One of the paper under DEV-21-SUB-0256 constitutes the report referred to in paragraph 1 above, and that Part Two outlines the proposed next steps;
- 3 **noted** that the paragraphs outlined below are informed by the following:
 - 3.1 the Climate Change Commission, in its final advice *Ināia tonu nei: a low emissions future for Aotearoa*, made a number of recommendations in relation to the fossil gas sector, including the development of a plan for managing phase out of fossil gas;
 - 3.2 the Gas Industry Company has provided its final report into whether the current fossil gas market, commercial, and regulatory settings that provide for gas availability and flexibility are fit-for-purpose in supporting this transition;
 - 3.3 the Gas Infrastructure Futures Working Group has produced a 'Finding Report' on the future of gas infrastructure in New Zealand as New Zealand transitions;

Part One: Report back

- 4 **noted** the following findings in relation to the reporting requirement referred to in paragraph 1 above:
 - 4.1 Aotearoa New Zealand needs to focus on the phase-out of fossil gas to support decarbonisation of the wider economy. In doing so, there is a need to continue to manage the three dimensions of the energy trilemma (energy security, environmental sustainability, and energy equity), and take an approach that prioritises reducing emissions in the most efficient way and includes the role energy conservation and efficiency can play;

- 4.2 the phase-out of fossil gas will present both short and long-term challenges for balancing the trilemma, including a need to balance continued capital investment with reducing fossil gas use, rising fossil gas prices for consumers, stranded asset risks, and the potential for large transition costs (for both consumers and the government);
- 4.3 there are opportunities to repurpose current infrastructure for renewable gases (such as biogas and green hydrogen) to support hard-to-abate sectors, and lower transition costs for fossil gas consumers, but that further work is required to understand their potential;

Part Two: Proposals to ensure an equitable phase-out of fossil gas

Developing a Gas Transition Plan

- 5 **agreed** to develop a Gas Transition Plan that will set out the transition pathway for the fossil gas sector, and include further measures the government will put into place to ensure an equitable transition;
- 6 **agreed** that the Gas Transition Plan will also focus on where renewable gases can strategically support hard-to-abate consumers and assist in mitigating overall transition costs;
- 7 **noted** that developing a Gas Transition Plan has been recommended by the Climate Change Commission, the Gas Industry Company, and the Gas Infrastructure Futures Working Group;
- 8 **noted** that the Gas Transition Plan is intended to be a technical and focused plan that will act as an input into the development of a broader Energy Strategy;
- 9 **noted** that the Gas Transition Plan will focus on the first three Emissions Budget periods, out to 2035, while signalling the longer-term pathway out to 2050;
- 10 **agreed**, pending further consultation and analysis of Emissions Reduction Plan consultation feedback, to the following desired outcomes being included in the Gas Transition Plan:
- 10.1 sustainability: Aotearoa New Zealand avoids decisions or investments that lock in New Zealand's reliance on fossil fuels in the long-term;
- 10.2 energy security: fossil gas continues to support security of energy supply until it is no longer required;
- 10.3 energy equity: adverse and unexpected effects on fossil gas consumers are prevented or mitigated, and consumers retain access to affordable, reliable and abundant energy;
- 10.4 emission reduction: Aotearoa New Zealand prioritises reducing emissions in the most efficient way; and
- 10.5 energy conservation and efficiency: energy conservation and efficiency play a key role;
- 11 **noted** that the Minister of Energy and Resources will investigate the desirability of setting milestones, such as phase-out dates, in the Gas Transition Plan;

- 12 **noted** that the Minister of Energy and Resources considers the development of a Gas Transition Plan is part of broader cross-portfolio work on phasing-out fossil gas, and that there is a need to ensure there is coordinated and integrated decision making;
- 13 **noted** that the Minister of Energy and Resources intends to work with other portfolio Ministers, including Building and Construction, Environment, and Commerce and Consumer Affairs, on gas phase-out matters relevant to their portfolios as this Gas Transition Plan is developed;
- 14 **Legal professional privilege** [REDACTED]
- 15 **agreed** that the Minister of Energy and Resources will develop a Terms of Reference for the Gas Transition Plan in consultation with the Minister for Climate Change and report back to Cabinet in 2022 ahead of publication of the final Emissions Reduction Plan;
- 16 **noted** that Emissions Reduction Plan consultation feedback will inform the Terms of Reference, including how iwi and Māori will be involved in the Gas Transition Plan development;
- 17 **noted** that the Gas Transition Plan will be developed closely with industry to ensure a realistic but ambitious pathway for transition is developed;
- 18 **noted** that the Gas Transition Plan will also consider measures to better enable the deployment of renewable gases in New Zealand, aligned with the Hydrogen Roadmap;
- 19 **noted** that the Gas Transition Plan will also consider the role of renewable gases for non-energy users of fossil gas (such as Methanex), and that this work is intended to align with the broader work around industrial policy;
- 20 **agreed** to signal the development of the Gas Transition Plan in the Energy and Industry component of the Emissions Reduction Plan;
- 21 **noted** that the Minister for Energy and Resources considers that the Terms of Reference could be published alongside the final Emissions Reduction Plan in May 2022;

Review of the Government Policy Statement on Gas Governance 2008

- 22 **noted** that the Gas Industry Company will be important for working with industry on the phase-out plan and increasing the uptake of renewable gases;
- 23 **noted** that the Gas Industry Company is directed by the Government Policy Statement on Gas Governance 2008, which may require updating to reflect the transition required of the sector;
- 24 **noted** that officials will begin targeted engagement with stakeholders on potential amendments to the Government Policy Statement on Gas Governance 2008, and that the Minister of Energy and Resources will report back to DEV on potential amendments in the second half of 2022;

Responding to other recommendations from the Gas Industry Company and the Gas Infrastructure Futures Working Group

- 25 **noted** that the Gas Industry Company and the Gas Infrastructure Future Working Group recommended a number of other pieces of work, in addition to the Gas Transition Plan;
- 26 **noted** that the Gas Industry Company's other recommendations include:
- 26.1 a set of three interrelated workstreams to improve commercial arrangements so that sufficient volume and flexibility of gas supply is in place far enough in advance to promote security of supply for electricity (energy and capacity), as follows:
 - 26.1.1 identify what gas producers and major users have agreed to/can deliver to generators and major users over the medium to long term, including planned demand response arrangements and gas storage;
 - 26.1.2 a related focus on the role of Methanex in supporting electricity security of supply through the transition;
 - 26.1.3 the Electricity Authority considering current limitations to dry year cover in its response to any problems it identifies in relation to thermal fuel availability and security of supply in its ongoing reviews;
 - 26.2 information availability, including reporting of gas reserves and resources under the Crown Minerals Act 1991;
 - 26.3 the future of economic regulation under Part 4 of the Commerce Act 1986;
 - 26.4 considering whether additional mechanisms are desirable to ensure gas is available to industrial users in unexpected tight situations;
- 27 **noted** that the Minister of Energy and Resources intends to progress paragraph 26.1 above alongside work on the New Zealand Battery Project and achieving the government's 100 percent renewable electricity goal;
- 28 **noted** that the Minister of Energy and Resources will commission the Gas Industry Company, consistent with the process provided for under the Government Policy Statement on Gas Governance, to work with officials to address the issues outlined in paragraphs 26.2, 26.3 and 26.4 above;
- 29 **noted** that the Gas Infrastructure Futures Working Group provided a number of recommendations that will be considered as part of the development of an energy strategy;
- 30 **noted** that both the Gas Industry Company and the Gas Infrastructure Futures Working Group recommended a review of the economic regulation of fossil gas pipeline businesses under Part 4 of the Commerce Act 1986;
- 31 **noted** that the Minister of Energy and Resources will work with the Minister of Commerce and Consumer Affairs on considering gas issues as they relate to Part 4 of the Commerce Act 1986, but that this work will be conducted separately to the Gas Transition Plan for the fossil gas sector;

32 **noted** that in the upcoming paper to Cabinet regarding the Emissions Reductions Plan for the energy, industry and building and construction sectors, the Minister of Energy and Resources will report on the government's response to the relevant Climate Change Commission's recommendations, as outlined in Appendix One to the paper under DEV-21-SUB-0256.

Michael Webster
Secretary of the Cabinet

***Secretary's Note:** This minute replaces DEV-21-MIN-0256. Cabinet agreed to amend paragraphs 4 and 15 and add paragraphs 10.4, 10.5 and 32.*