



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Energy and Resources
Title of Cabinet paper	Establishing a Terms of Reference for the Gas Transition Plan	Date to be published	12 July 2022

List of documents that have been proactively released

Date	Title	Author
May 2022	<i>Establishing a Terms of Reference for the Gas Transition Plan</i>	<i>Office of the Minister of Energy and Resources</i>
4 May 2022	<i>DEV-22-MIN-0096 Minute</i>	<i>Cabinet Office</i>

Information redacted

NO

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In Confidence

Office of the Minister of Energy and Resources
Cabinet Economic Development Committee

Establishing a Terms of Reference for the Gas Transition Plan

Proposal

- 1 On 20 December 2021, Cabinet agreed [CAB-21-MIN-0547.03]:
 - 1.1 to develop a Gas Transition Plan (GTP) 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;
 - 1.2 that the GTP will also focus on where renewable gases can strategically support hard-to-abate consumers and assist in mitigating overall transition costs; and
 - 1.3 that the Minister of Energy and Resources and Minister of Climate Change will develop a Terms of Reference (ToR) for the GTP, and report back to Cabinet in 2022, ahead of publication of the final Emissions Reduction Plan (ERP).
- 2 This paper seeks agreement to a ToR to guide the development of the GTP. The ToR is attached as Appendix One to this paper.

Relation to government priorities

- 3 The ToR will guide the scope and approach to the GTP to support the Government's priority to enable an equitable transition to a low emissions, climate resilient future.
- 4 This priority was emphasised by the Cabinet Business Committee when it noted the intention to "put the climate at the centre of government decision-making" and agreed that "climate change requires decisive action by all levels of government, the private sector, and communities" [CBC-20-MIN-0097 refers].
- 5 The ToR will guide work that will also be complementary to:
 - 5.1 the first ERP which will work towards delivering on the Labour and Green Parties' agreement to achieve the purpose and goals of the Climate Change Response Act 2002, and legislated emissions reduction target (e.g. to reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050); and
 - 5.2 our broader work to act decisively on climate change, and to ensure an equitable transition for fossil gas that mitigates implications for consumer wellbeing and energy security as we transition.

- 6 The GTP is related to the Labour Party and Green Party of Aotearoa New Zealand's Cooperation Agreement, which sets out an agreed area of cooperation to achieve the purpose and goals of the Climate Change Response (Zero Carbon) Amendment Act 2019, including supporting the use of renewable energy for industrial heat.

Executive Summary

- 7 On 20 December 2021, Cabinet agreed to the development of the Gas Transition Plan (GTP) to articulate the transition pathway for the phase-out of fossil gas over time, including where and when renewable gases may be required to offset fossil gas use and associated emissions [CAB-21-MIN-0547.03]. Cabinet also agreed that the Ministers of Energy and Resource and Climate Change would develop a Terms of Reference (ToR) for the GTP and report back to Cabinet in 2022, ahead of publication of the final Emissions Reduction Plan (ERP).
- 8 The proposed ToR covers the purpose, outcomes, scope, governance, engagement approach and timing of the development of the GTP. The ToR also sets out the proposed approach to how the GTP will be developed with iwi and Māori, industry and other key stakeholders. The ToR is attached at Appendix One to this paper.
- 9 I propose that as the GTP is developed, the ToR may be amended with agreement from the Minister of Energy and Resources and Minister of Climate Change should amendments be required, for example to ensure the GTP remains aligned with other Government strategies that are also being developed.
- 10 This paper seeks agreement to the proposed ToR and for it to be published on the Ministry of Business, Innovation and Employment's (MBIE) website alongside the final ERP in May 2022.
- 11 Officials from MBIE will work together with representatives from Gas Industry Company Limited (GIC), the gas industry co-regulator, to develop the GTP following publication of the ToR.
- 12 I intend for the GTP to be completed by the end of 2023 so that it can act as a technical input into the development of the broader Energy Strategy. Work to develop this strategy will begin after the publication of the ERP in May 2022.

Background

- 13 On 6 April 2021, the Cabinet Business Committee requested that I report back to Cabinet by the end of 2021, on *'managing the phase out of fossil gas¹ in the energy system, and on opportunities to repurpose fossil gas infrastructure for renewable gases'* [CAB-21-MIN-0099]. I reported back in December 2021 [CAB-21-MIN-0547] with recommendations for further work, including the development of a GTP.
- 14 As part of this report back, Cabinet agreed [CAB-21-MIN-0547.03]:

¹ The Climate Change Commission (CCC) has adopted the term 'fossil gas' over natural gas. Both of these terms refer to the use of methane gas as a fuel. The term fossil gas is used in this paper to be consistent with the CCC and the terminology intended to be used in the ERP.

- 14.1 to develop a GTP 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;
 - 14.2 that the GTP will also focus on where renewable gases can strategically support hard-to-abate consumers and assist in mitigating overall transition costs; and
 - 14.3 that the Minister of Energy and Resources and Minister of Climate Change will develop a ToR for the GTP, and report back to Cabinet in 2022 ahead of publication of the final ERP.
- 15 The development of the GTP is a response to several reports that I received last year:
- 15.1 The Climate Change Commission's (the CCC's) final advice: *Ināia tonu nei: a low emissions future for Aotearoa*, which made several recommendations for addressing the fossil gas sector's emissions.
 - 15.2 The Gas Market Settings Investigation Report: the final report from an investigation GIC performed to ensure that current market, commercial, and regulatory settings that provide for gas availability and flexibility are fit-for-purpose in supporting the transition.
 - 15.3 The Gas Infrastructure Future Working Group – Findings Report: the Gas Infrastructure Futures Working Group (GIFWC) comprises fossil gas infrastructure companies and has produced a report on the future of fossil gas infrastructure in Aotearoa New Zealand. This report was not commissioned by Government and was developed to complement the GIC's report, with a focus on gas infrastructure.
- 16 The GTP will need to support the transition away from fossil gas at a pace that is consistent with the purpose and goals of the Climate Change Response Act 2002, the legislated emissions reduction targets (e.g. to reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050), our emissions budgets, and our Nationally Determined Contributions (NDCs) under the Paris Climate Change Agreement.
- 17 Delays to action to reduce emissions from fossil gas usage, or a transition that occurs too slowly, will create fiscal and international liabilities for New Zealand. It may also have important implications for NZ's ability to meet our ambitious and mutually reinforcing trade and environmental/climate change goals and commitments.
- 18 Delays are also costly for future Governments, consumers, and businesses as we may face greater transition costs, and potentially greater disruption, in order to meet our required emissions reduction targets if action does not occur at pace.

Terms of Reference

- 19 I seek agreement to the ToR for the GTP, attached at Appendix One. The ToR covers the purpose, outcomes, scope, governance, engagement approach, and timing of the development of the GTP.

The GTP is intended to articulate the transition pathway for the phase-out of fossil gas and establish a strategic view on the role of renewable gases

- 20 The purpose of the GTP is to:
- 20.1 establish realistic, but ambitious, transition pathways for the fossil gas sector to decarbonise in line with the 2023-2025, 2026-2030, and 2031-2035 emissions budgets, noting the inherent uncertainties involved;
 - 20.2 provide a framework to inform and engage with industry and other stakeholders about the future challenges and opportunities for the sector, and to identify areas where further measures may be required to achieve an equitable transition; and
 - 20.3 establish a strategic view on the potential role for renewable gases, and potential measures for accelerating their uptake.
- 21 While the GTP will inform the development of the broader Energy Strategy, it will also consider other relevant workstreams that are underway, such as the Bioeconomy Strategy and the Decarbonising Industry Plan. I intend for the GTP to take into account other relevant Government objectives, such as the aspirational target to achieve 100 per cent renewable electricity by 2030, and use these as a guide for the development of transition pathways.
- 22 I intend for the GTP to set out the work that Government will undertake to help support an equitable transition as we reduce emissions associated with fossil gas and to achieve the intent set out in paragraphs 15 to 17. This will be informed by analysis conducted as part of the GTP to identify areas where changes may be required to achieve an equitable transition.
- 23 I recognise that a proportion of the investment and work to transition will be led by the energy industry, who will be the investors in both fossil gas and renewable gas production, along with the supply chain. The final GTP is likely to contain recommendations for further work with, or by, the energy industry to support the transition.

Structure of the Gas Transition Plan

- 24 As such, the GTP should cover two main pillars, with pillar one focussing on articulating transition pathways for the fossil gas sector, and pillar two focusing on the role of renewable gasses.
- 25 In particular, pillar one should cover an analysis of potential transition pathways for the fossil gas sector focussing on the period of the first three carbon budgets, including:
- 25.1 setting out key uncertainties and decision points that affect the end-state for the sector across the different pathways;
 - 25.2 high-level projections of emissions from fossil gas use out to 2035 and beyond, with a view to the longer-term trends out to 2050, including:

- 25.2.1 low to medium temperature process heat applications;
 - 25.2.2 high temperature process heat generation; and
 - 25.2.3 water heating, space heating, and cooking in commercial buildings and households.
- 25.3 projections out to 2035 for emissions from gas use across consumer groups, including:
- 25.3.1 where gas emissions are likely to arise on the network; and
 - 25.3.2 emissions and demand from major gas users; and
- 25.4 projections around gas pipeline services utilisation under different pathways (including implications for legacy gas pipeline infrastructure).
- 26 Pillar one will also include identifying any additional measures and actions that will be required in order to reduce emissions from the fossil gas sector in line with identified transition pathways and New Zealand’s emissions budgets, including:
- 26.1 identifying challenges and further measures that are required to support an equitable transition;
 - 26.2 an estimation of transition costs under different transition pathways, including consideration of cost impacts for different types of consumers;
 - 26.3 an analysis of where transition costs fall; and
 - 26.4 identifying where transition impacts may not support an equitable transition for consumers and the wider industry, and whether specific measures should be put in place to measure these impacts.
- 27 Pillar two will consider the role for renewable gases (including green hydrogen, biomethane and renewable liquid petroleum gas (rLPG)) to help support the reduction in emissions. In particular pillar two should include:
- 27.1 assessing the role of renewable gases against the energy trilemma (while considering other renewable energy options), for example, outlining what strategic role they can play to support security of supply;
 - 27.2 identifying barriers to the uptake of renewable gases in Aotearoa New Zealand where these make sense, and potential measures for accelerating the development and supply of renewable gases. For example, the ability to use existing pipeline gas infrastructure to support the supply of renewable gases. This will need to be considered alongside other workstreams, including the Energy Strategy and the Bioeconomy Strategy;
 - 27.3 assessing the full lifecycle emissions profile of different renewable gases to ensure that they provide genuine emissions reductions;

- 27.4 assessing the role of carbon capture, use and/or storage, particularly direct air carbon capture, for supporting renewable gas production and emissions reductions;
 - 27.5 developing a cohesive view on whether renewable gases could support the non-energy major users of gas, such as Methanex and Ballance Agri-Nutrients; and
 - 27.6 determining how the use of green gases can support the Government's vision for hydrogen and the ongoing Hydrogen Roadmap.
- 28 Both pillars will include the development of milestones to measure the progress of the transition away from fossil gas use, emissions reductions, and progress on renewable gas use.

Several high-level outcomes have been identified to help guide and steer the development of the GTP

- 29 The ToR includes several high-level outcomes which have been identified to help guide and steer the development of the GTP, and for the reduction in emissions associated with the use of fossil gas as a fuel. .
- 30 The outcomes are intended to inform action and investments in the short-to-medium term as we approach 2035.
- 31 The desired outcomes for the overall transition for fossil gas out to 2035 are as follows:
 - 31.1 *Sustainability*: Aotearoa New Zealand avoids making decisions that further lock in our reliance on fossil fuels.
 - 31.2 *Energy security*: Security of supply is maintained through the transition, as fossil gas continues to be progressively displaced by renewable, lower emissions, alternatives.
 - 31.3 *Energy Equity*: adverse and unexpected effects on fossil gas consumers are prevented or mitigated and consumers retain access to affordable, reliable and abundant energy. This includes minimising the broader effects on prices paid by consumers, as well as pricing of inputs for businesses as we transition.
 - 31.4 *Emission Reductions*: Aotearoa New Zealand prioritises reducing emissions in the most economically efficient way. Emissions reductions will need to support Aotearoa New Zealand's emissions budgets and 2050 emissions targets.
 - 31.5 *Energy Conservation and Efficiency*: energy conservation and efficiency play a key role in the overall transition.
- 32 I recognise the outcomes may need to be balanced against each other over time, as we push towards a more sustainable economy and gas sector. Using these outcomes and

developing a framework through the GTP will help ensure that these decisions can be made transparently and communicated to the industry.

The Gas Transition Plan will act as an input into the Energy Strategy

- 33 I have publicly signalled that I intend to develop an Energy Strategy, as recommended by the CCC. Work to develop the strategy will begin in earnest after the publication of the ERP in May 2022.
- 34 I see the GTP as a key input into the development of the Energy Strategy. At this stage, I intend for the GTP to be completed by the end of 2023. My officials will work to manage the dependencies between these products as they are developed, and ensure that these are complementary to each other.
- 35 I propose that the ToR may be amended with agreement from the Minister of Energy and Resources and Minister of Climate Change, as the GTP is developed. Amendments will be published on the MBIE's website as required.

Approach to developing the GTP

- 36 I have instructed MBIE officials to work closely with GIC to develop the GTP. Working closely with the GIC means MBIE will have access to technical knowledge and can leverage its existing relationships with industry.
- 37 The ToR sets the expectation that iwi and Māori should be engaged in the development of the GTP to give effect to the Government's Treaty Partnership obligations and that their views should be adequately reflected in the transition pathways. Hui with iwi and Māori on the GTP may also be aligned with those for the Energy Strategy, given the significant linkages between the two.
- 38 Consultation with stakeholders, including industry, governmental and non-governmental organisations and other interested parties will take place at appropriate points in the development of the GTP. Consultation on a draft version of the GTP will also occur during its development.
- 39 The development of the GTP will be led by Government. I will be seeking Cabinet approval for both the consultation on the draft version of the GTP, and approval on the final GTP.

A Steering Group should be appointed to help govern the development of the GTP

- 40 The ToR sets out governance arrangements to help guide the development of the GTP. It is expected that MBIE will appoint a Steering Group that reflects a broad range of views, comprising appropriate senior officials from relevant government agencies including MBIE officials from different portfolios (e.g, Energy and Resources, Building and Construction, Economic Development), the Ministry for the Environment, and the GIC.

- 41 The Steering Group will help ensure that linkages and dependencies are well managed and that the GTP is developed consistent with, for example, the Energy Strategy, the Decarbonising Industry Plan and the Bioeconomy Strategy.

The timeline for the development of the GTP will be aligned with the development of the Energy Strategy

- 42 The GTP will be a key input to the Energy Strategy. I proposed that the GTP should be completed ahead of the publication of final Energy Strategy. A key dependency will be the timeframes for the development of the Energy Strategy.
- 43 The table below provides the proposed timing for the development of the GTP following the publication of the ToR in May 2022.

Stage	Timing
Publication of Terms of Reference for the GTP	May 2022
Targeted engagement with stakeholders	Q3 and Q4 2022
Cabinet agreement to consult on the draft GTP	Q1 2023
Consultation on draft GTP	Q2/Q3 2023
Publication of GTP	End of 2023
Publication of Energy Strategy	By end of 2024

Financial Implications

- 44 There are no direct financial implications associated with this paper.

Legislative Implications

- 45 There are no direct legislative implications associated with this paper. Future actions identified through the GTP may have future legislative implications, which will be determined as these are developed.

Impact Analysis

Regulatory Impact Statement

- 46 Impact analysis requirements do not apply, and a Regulatory Impact Statement has not been prepared.

Climate Implications of Policy Assessment

- 47 Climate Implications of Policy Assessment (CIPA) does not apply.

Population Implications

48 There are no direct population implications associated with this paper.

Human Rights

49 The proposals in this paper are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

50 The following agencies have been consulted on the ToR and their feedback has been incorporated:

51 Gas Industry Company Limited, the Ministry for the Environment, the Treasury and the Ministry for Foreign Affairs and Trade were consulted on the report back. The Department of Prime Minister and Cabinet was informed.

Communications

52 The GTP will be signalled in the final ERP. I intend to publish the ToR for the GTP at the same time the final ERP is released, which is expected to be in May 2022. I intend to align media engagement on the ToR with the broader communications relating to the ERP as it is released.

Proactive Release

53 I intend to proactively release this paper with appropriate redactions consistent with the Official Information Act 1982 alongside the release of the ERP.

Recommendations

The Minister for Energy and Resources recommends that the Committee:

- 1 **Note** that in December 2021, Cabinet agreed to [CAB-21-MIN-0547.03]:
 - 1.1 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;
 - 1.2 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; and
 - 1.3 that the Minister of Energy and Resources and Minister of Climate Change will develop a Terms of Reference for the Gas Transition Plan, and report back to Cabinet in 2022 ahead of publication of the final Emissions Reduction Plan.

- 2 **Note** that developing a Gas Transition Plan has been recommended by the Climate Change Commission, Gas Industry Company Limited, and Gas Infrastructure Futures Working Group;
- 3 **Agree** to the attached Terms of Reference for the Gas Transition Plan;
- 4 **Note** 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;
- 5 **Note** that the proposed purpose of the Gas Transition Plan is to:
 - 5.1 establish realistic, but ambitious, transition pathways for the fossil gas sector to decarbonise in line with the 2023-2025, 2026-2030, and 2031-2035 emissions budgets, noting the inherent uncertainties involved;
 - 5.2 provide a framework to inform and engage with industry and other stakeholders about the future challenges and opportunities for the sector, and to identify areas where further measures may be required to achieve an equitable transition; and
 - 5.3 establish a strategic view on the potential role for renewable gases, and potential measures for accelerating their uptake.
- 6 **Note** that the Gas Transition Plan is intended to support a transition at pace, in line with our emissions budgets, legislated targets and our international obligations, to help reduce future costs and disruptions for future Governments, businesses and consumers due to delayed action.
- 7 **Note** that the Gas Transition Plan is proposed to be made up of two pillars:
 - 7.1 Pillar One: Transition pathways out to 2035 and beyond; and
 - 7.2 Pillar Two: The role of renewable gases.
- 8 **Note** that the desired outcomes for the overall transition for fossil gas out to 2035 are: sustainability, energy security, energy equity, emission reductions, and energy conservation and efficiency;
- 9 **Agree** that the Terms of Reference may be amended with agreement from the Minister of Energy and Resources and Minister of Climate Change as the Gas Transition Plan is developed, should this be required, for example to ensure it remains aligned with other strategies that are being developed, such as:
 - 9.1 the Energy Strategy;
 - 9.2 the Decarbonising Industry Plan; and
 - 9.3 the Bioeconomy strategy.
- 10 **Note** that MBIE will work in conjunction with Gas Industry Company Limited (the gas industry co-regulator) to develop the Gas Transition Plan;

- 11 **Note** that iwi and Māori will be engaged in the development of the Gas Transition Plan to ensure their views are adequately reflected;
- 12 **Note** consultation with stakeholders, including industry, governmental and non-governmental organisations and other interested parties is intended to take place at appropriate points in the development of the Gas Transition Plan;
- 13 **Note** that I will be seeking Cabinet approval for consultation on the draft version of the Gas Transition Plan and seek Cabinet approval on the final Gas Transition Plan;
- 14 **Note** that a Steering Group for the Gas Transition Plan should be made up of senior officials that will be appointed by Ministry of Business, Innovation and Employment to help ensure that linkages and dependencies with other Government workstreams are well managed, and a broad perspective is incorporated;
- 15 **Note** that I intend to signal the development of the Gas Transition Plan in the Energy and Industry component of the Emissions Reduction Plan;
- 16 **Agree** that the Terms of Reference for the Gas Transition Plan will be published on Ministry of Business, Innovation and Employment's website alongside the final Emissions Reduction Plan in May 2022; and
- 17 **Note** that it is intended that the Gas Transition Plan will be developed by the end of 2023.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Energy and Resources