MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Developing a Regulatory Framework for Offshore Renewable Energy

Launch Webinar: 24 August 2023

New Zealand Government

Context

- **The discussion document *'Developing a Regulatory Framework for Offshore Renewable Energy'* has been published as part of a package of five document to progress New Zealand to the next phase of its energy transition:**
  - a webinar on 18 August to set out how these papers fit together and with the Energy Strategy
  - webinars taking place in August on the other four documents

- New Zealand has excellent potential for offshore renewable energy development because of high wind speeds and shallow water depths. **Offshore renewable energy could play a significant role in New Zealand energy transition** –
  - contribution to the significant increases in renewables
  - delivering economic benefits, for example in creating jobs and supporting just transitions

- The first Emissions Reduction Plan (ERP) made a commitment to a regulatory regime for offshore renewables by 2024. This document is the second part of a two part consultation on the design of the regulatory regime:
  - part 1 – feasibility – consultation between December 2022 – April 2023
  - **part 2 – full regime – consultation between August 2023 – November 2023**

- We specifically use the example of offshore wind. However, this is because this is the most mature technology and the regime is intended to apply to all offshore renewable energy developments.

Agenda

1. Process overview

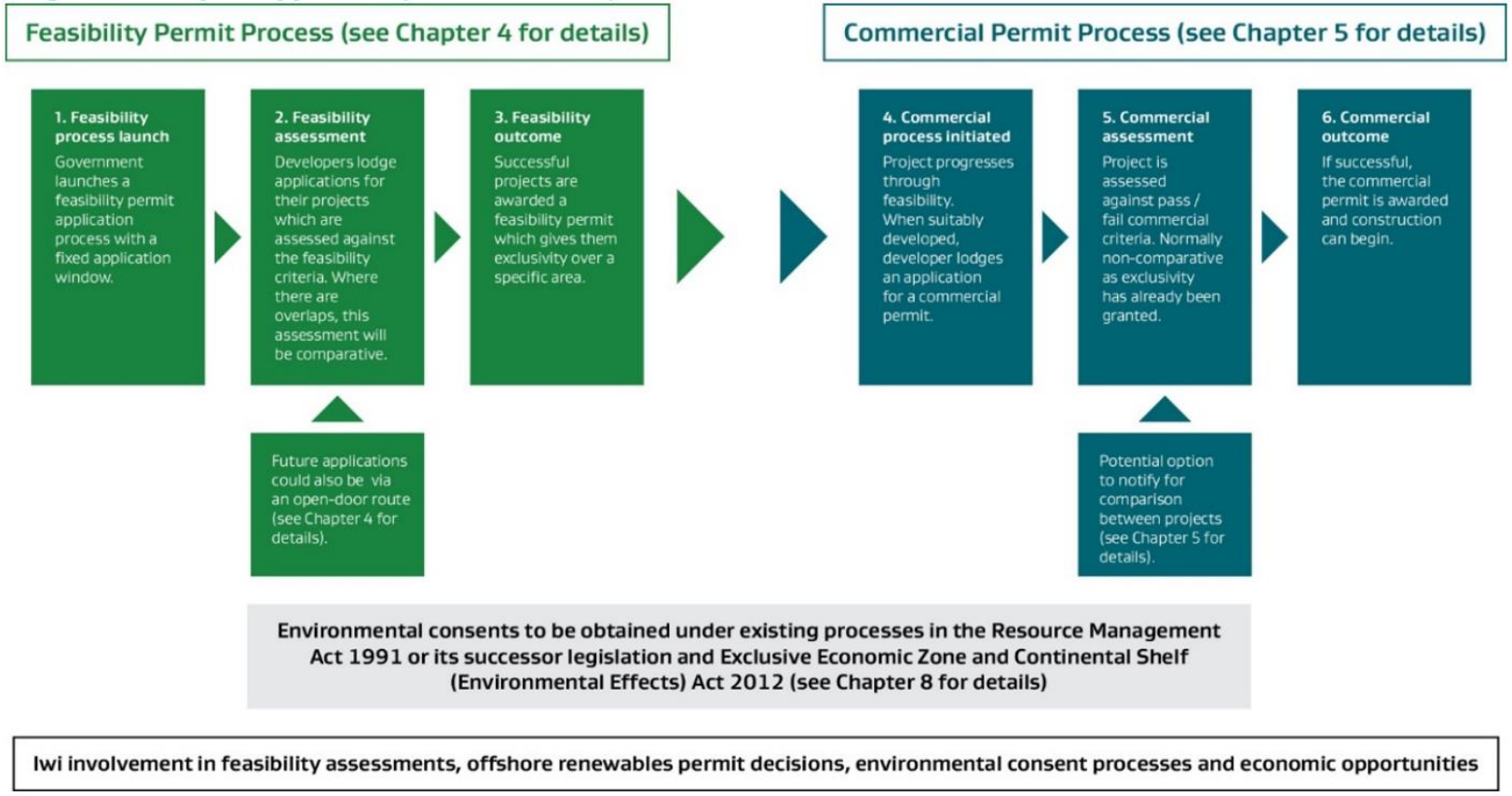
2. Chapter topics
   i. Feasibility permits
   ii. Commercial permits
   iii. Economic approaches
   iv. Māori rights and interests
   v. Interaction with environmental consenting processes
   vi. Enabling transmission
   vii. Decommissioning

3. Other regulatory topics

4. Submissions, engagement and next steps

5. **Q&A**

Process Overview



- The core proposal is that developers will need a permit to construct and operate offshore renewable energy infrastructure.
- With two permits –
  - A feasibility permit – sole right to apply for a subsequent commercial permit for a particular site.
  - A commercial permit - to construct and operate offshore renewables for the same site.
- Developers will also need to obtain environmental consents.
- Iwi and hapū can participate in all stages of the process.

Feasibility permits

- The first discussion document (Dec 22) considered options for enabling feasibility. It proposed a developer-led permitting approach.
- Following consultation, Government has taken the following in principle decisions:
    1. creation of feasibility permits
    2. a maximum permit duration of seven years (subject to use it or lose it)
    3. a list of feasibility assessment criteria
    4. where overlaps cannot be resolved, the permit will be awarded to the project with the best performance against the feasibility assessment criteria.

- Our second discussion document considers some additional points related to feasibility not covered in the first document:
    - **Feasibility application process structure –**
        - proposes that government will launch an initial round with a fixed application window
        - followed by an open door process and the option for government to launch subsequent, future rounds.

    - **Area to be covered by feasibility permit –**
        - projects of up to 1GW might be most appropriate in a New Zealand context, which might approximately translate to maximum size of 250km2
        - we propose that this limit should be suggested in guidance as opposed to be being set out in legislation.

Commercial permits

We propose a commercial permit would be required to construct and operate renewable energy infrastructure. Only the developer with a feasibility permit for a particular site would be able to apply for a commercial permit within that site.

- We consider options for the **process structure:**
  - our starting principle is that this should be initiated by the developer
  - however, we're also seeking feedback on the merits and risks of being able to compare projects applying in a similar location at a similar time (even if they don't directly overlap).

- We propose a potential list of **assessment criteria –**
  - these include: capability of the developer; readiness of the project; iwi and hapū involvement, decommissioning, energy system impacts, economic development potential; health and safety credentials; and national interest.
  - permit holders will be expected to demonstrate they continue to meet these criteria through the life of their project.

- We consider the **nature of the permit** proposing:
  - a maximum permit duration of 40 years
  - that the geographic reach of a permit must be same as or within feasibility permit area.

- We're also seeking views on whether or not to allow developers to apply for **extensions** to their project; or whether such proposals should have to be considered through a new permit application (feasibility and commercial).

Economic models

Internationally there are a range of economic models associated with offshore renewables, which include one or both of the following features:

- A revenue ***support*** mechanism - a payment flow from government to the offshore renewable energy project. This can lower costs compared to other forms of energy, or provide revenue certainty to enable the project to access cheaper financing.
- A revenue ***gathering*** mechanism - a payment flow from the project to government. This usually enables the taxpayer to benefit from the development of the offshore renewable energy sector.

We are exploring the case for these mechanisms for offshore renewables in a New Zealand context. We consider there to be an interdependency between the two choices which we want to explore further and no decisions have been taken yet.

Revenue Support

- We include a comparison of different international models.
- Recognising that types of support have evolved over time, such that there may an opportunity to benefit from this maturity / learning.
- In a New Zealand context, also need to try to avoid any distortionary impact on the onshore renewable pipeline.
- Work is underway via the renewable electricity consultation to consider whether there is a need for additional policies to support the renewable pipeline.

Revenue Gathering

- Some countries operate on a cost recovery basis only; others include a revenue gathering mechanism (e.g. a lease fee).
- Where revenue gathering is included, approaches vary based on base metric, quantum, time period and whether or not the process is competitive or fixed.
- The purpose and benefit of such an approach is that the taxpayer can share in benefits of development.
- However, there are risks that this could deter investment and/or increase prices for the consumer.

Māori rights and interests and enabling iwi and hapū involvement

- Māori have strong cultural, spiritual, traditional and historical connections to the moana surrounding New Zealand and we received initial feedback from iwi through our first consultation.
- Government has directed us to work in close collaboration with iwi and hapū through a dedicated process.
- This engagement will focus on:
  - Enabling iwi and hapū involvement in decision making
  - Creating economic opportunities for Māori including an exploration of the potential for a revenue flow
  - Working through the complexity of which iwi and hapū have an interest in development
- These topics are covered at a high level in Chapter 7. However, detailed options will be developed in conjunction with iwi and hapū through that process.
- ***We will identify appropriate check-in points to engage with developers and other interested stakeholders as we develop options.***

Interaction with Environmental Consenting

- The core proposal is that developers will be required to obtain ***both*** permits and relevant environmental consents. Specifically, activities within:
  - the territorial sea will require specific resource consents (known as a coastal permit)
  - the Exclusive Economic Zone (EEZ) will require marine consents (and resource consents for transmission).

- We want to ensure permitting and consenting processes interact sensibly with one another. For example we want to:
  - avoid unnecessary duplication between the two regimes. We therefore propose that the permitting regime would not include its own assessment of environmental effects
  - find a sensible sequence through which developers can obtain the relevant approvals. Testing: feasibility permits, environmental consents, commercial permits.
- The document starts to explore some of the potential challenges for projects trying to obtain relevant consents. For example:
  - Territorial sea - the hard avoid principles of the NZ Coastal Policy Statement. This is already being considered as part of the MBIE/MfE joint consultation on *consenting improvements for renewable electricity.*
  - EEZ – uncertainty as to how offshore renewable energy projects would be considered / treated
    - *We recognise there may be a need for a future workstream to consider these challenges and potential solutions*
- Finally, the document also discusses some of the trade-offs between development in the territorial sea and development in the EEZ, which might include: project economics; landscapes; existing and future uses and interests; and environmental impacts.

Transmission

- Offshore renewable energy projects will require new transmission infrastructure (including inter-array cables, offshore substation, export cables and onshore connection).

- Internationally different approaches have been taken as to the party that funds, builds, owns and operates this transmission infrastructure. This is typically on a spectrum of:
  - **Developer led** - developer funds, builds, owns and operates the offshore transmission assets.
  - **Plan / TSO led** - TSO builds, owns, and operates the offshore transmission infrastructure, which in some models is publicly funded.

- We are interested in exploring the trade-offs between different options to determine which approach might be most appropriate for New Zealand.

- We’re also interested in exploring:
  - Opportunities for **joint connection infrastructure**, which has the potential to reduce costs and environmental impacts
  - Ways in which to ensure sufficient **interconnection infrastructure** is available to support developments, while also protecting consumers. Note this is not an issue isolated to offshore renewables and is also being explored through the renewable electricity consultation.

Decommissioning

- Propose that the party that constructs and operates offshore renewable energy infrastructure should be responsible for ensuring this infrastructure is decommissioned at the end of the useful economic life.
- Our overall approach is intended to reduce the risk of companies defaulting on their decommissioning obligations and to ensure the taxpayer is protected from having to fund decommissioning in the event of such a default.

- Core proposals:
  - place a **legal obligation** on the permit holder to decommission
  - require a **decommissioning plan and cost estimate** to be submitted before a permit can be granted
  - require a permit holder to undergo regular **financial capability** assessments
  - require permit holders to put in place a **financial security** to cover the decommissioning plan

- However, there are also a number of other detailed design choices that we are seeking feedback on:
  - whether cost estimates for the financial security should be based on the assumption of full removal?
  - whether cost estimates should be based on the cost to the developer or cost to government?
  - the types of financial security vehicle that government should accept?
  - the timing of financial security, including whether a security should be required for feasibility?
  - what ongoing monitoring requirements should be required?

Other regulatory matters

We are also consulting on a number of other more detailed issues, including:

- The compliance toolbox available to the regulator to enable it to encourage compliance and effectively respond to instances of non compliance.
- Decision making structures – whether permitting decisions are to be made by the minister, the regulator of some form of hybrid model.
- Whether commercial permit decisions should be open for public consultation.
- If and what types of safety zones may be required around infrastructure – balancing safety, infrastructure protection and the interests of other users.

Next Steps

- **The consultation period will run for 12 weeks:**
  - Launch webinars - **August**
  - 1-to-1 stakeholder sessions - **September**
  - Group workshop(s) - **October**
  - Written submissions by survey link, email, post – **2 November**

- We will also be engaging with iwi and hapū through a dedicated process:
  - to determine involvement in decision making and economic opportunities
  - we will identify appropriate check-in points to engage with developers and other interested stakeholders on the options developed through this process

- Following the consultation period we will:
  - analyse responses
  - produce and publish a summary of submissions
  - use feedback provided to inform policy decisions and bespoke legislation

- Alongside the consultation process we are also exploring with DOC and other agencies potential ways in which to facilitate **environmental data collection.** This could include i) a guidance document and/or ii) a collaborative exercise to collect this data.

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Any Questions?