



ENERGY AND RESOURCES BRIEFING FOR THE INCOMING MINISTER

This document has been proactively released. Redactions made to the document have been made consistent with provisions of the Official Information Act 1982.

December 2016

Purpose

The purpose of this initial briefing is to give the Incoming Minister sufficient information to meet their initial requirement. It is not intended to be a detailed analysis of the portfolio or of policy issues.

The briefing is part of a wider process. Ministers will be able to call for a fuller briefing on issues of interest and importance to them during that process. This allows the initial briefing to be wide ranging, enabling the Minister to see the breadth of the portfolio, while still being concise.

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1. Portfolio overview

The span of the Energy and Resources portfolio

The Energy and Resources portfolio encompasses activities relating to the energy, petroleum and minerals sectors. The core responsibilities include oversight of the management of the Crown Mineral estate, allocation and management of petroleum and mineral permits, management of relevant geoscience data, ensuring well-functioning and competitive energy markets, promoting energy productivity and efficiency improvements and supporting the transition to a lower emissions economy.

You are also responsible for five Crown entities and statutory bodies (all energy related). The scale and complexity of the activities of the Crown entities presents both challenges and opportunities. The Electricity Authority (EA) has a large programme of work in support of its statutory objective of promoting competition, reliability and efficiency in the electricity market for the long-term benefit of consumers. The EA is free to adopt its own approach in pursuing its objective. In contrast you have the ability to align the role and work programmes of the Energy Efficiency and Conservation Authority (EECA), as the delivery agency responsible for promoting energy efficiency and use of renewable energy, with broader economic and climate-change objectives.

You have leadership roles in a number of key forums, in particular the Ministerial group overseeing decommissioning of offshore petroleum infrastructure, Marine Ministers (primarily dealing with the marine protected area reforms) and Climate Ministers. As Minister of Energy and Resources, you will be closely involved in the Business Growth Agenda, which has identified the transition to a lower emissions economy as a priority. In your interactions with other portfolios you have a role as the sector “champion” to ensure policy issues with implications for the energy, petroleum and mineral sectors are appropriately addressed.

The portfolio faces challenges in terms of the impact of disruptive technology, the need to reduce greenhouse gas emissions to meet climate change objectives while growing the economy, the exposure to global commodity cycles, the need for international investment to support exploration and development of our natural resources, and management of the Crown’s exposure to potential liabilities.

New Zealand has abundant renewable and non-renewable energy resources...

New Zealand’s renewable energy resources are amongst the best in the world. In 2015, 40 per cent of our total primary energy was generated from renewable energy, leaving New Zealand ranked fourth amongst the Organisation for Economic Co-operation and Development (OECD) countries. We also have a diverse (multi-commodity) minerals sector playing an essential role in our economy, with reserves of high quality coking coal used in the making of steel, and many sedimentary basins are known to have working petroleum systems – only one of which is currently in production (Taranaki).

...with global trends influencing consumer and investment preferences

The balance between development of renewable and non-renewable resources is being driven by external developments, which present both challenges and opportunities for the Government and for New Zealand businesses and households. At the heart of these external developments is:

- i. the global response to the Paris Agreement (COP 21) on climate change, and
- ii. advances in technology, which are progressively disrupting almost all aspects of the energy system.

New Zealand needs to respond to these external developments while continuing to ensure that businesses and households benefit from secure, accessible and environmentally responsible energy and that all New Zealanders benefit from the development of Crown-owned minerals.

Fossil fuel resources are expected to play a significant role in meeting domestic energy security and global energy demand for some time...

Oil and coal markets have experienced instability over the last few years, in part due to the rapid rise of technology enabling 'tight oil' production in the United States. Crude oil prices have fallen significantly since late 2014 and reached a 10 year low in January 2016. The low price is a result of slow growth in demand and excess supply globally. Oil prices have recovered slightly but remain well below previous highs.

Over the medium-term, global oil demand and supply will balance, leading to more stable prices. The International Energy Agency (IEA) projects world demand for fossil fuels to continue to grow. This is partly due to the projected growth of the road freight, aviation and petrochemical sectors, and the lack of cost effective substitutes for fossil fuel in these sectors.

However, in the face of low oil prices, the response of most exploration and production companies has been to reduce expenditure. Oil and gas companies are focussing on optimising existing producing assets, rather than investing in new exploration projects which have a high level of commercial uncertainty, such as offshore New Zealand, which is relatively under-explored.

Internationally, natural gas is viewed as a transition fuel between coal and crude oil based products and renewables. New Zealand has around 10 to 12 years of gas reserves (subject to changes in demand and the rate of new discoveries) with exploration incentives strongly linked to global crude oil prices. Without continued investment in exploration, New Zealand will face a shortage of gas for domestic consumption in the medium-term. Although because large gas users are likely to scale back consumption in a tightened supply market, commercial and domestic consumers are unlikely to feel any significant effect. However, demand from large domestic gas users, such as Methanex and the electricity generation sector, will have an important bearing on incentives for future gas exploration and production.

Gas and coal continue to provide cost effective fuels for electricity generation, particularly to meet periods of peak demand and when hydro storage levels run low. Coal is also used for steel making and as process heat for primary production (especially in the dairy sector). There are limited alternatives in the short-term to coal use, particularly in the South Island which does not have direct access to natural gas.

A major offshore gas discovery in the South Island could act as a substitute for coal, but its viability for domestic use (rather than for export) would depend on the specifics of the find, including the economics of the onshore investment in infrastructure that would be required (e.g. a gas reticulation network).

...but there is a growing focus on the role of renewables in the transport and industrial sectors to reduce GHG emissions

Renewable energy technology is now a major growth industry. The latest Bloomberg New Energy Finance figures show that global investment in renewable energy grew in 2015 to nearly six times the 2004 total.

As a technology taker, New Zealand will benefit from this growth in international investment, through accelerated uptake of low cost alternatives to fossil fuels. However, this investment is primarily in the electricity sector, which offers less potential for reducing domestic emissions.

The IEA's latest renewable energy market analysis shows that renewable electricity alone will not get countries to where they need to be to meet their Paris Agreement climate change commitments. It reports that progress in renewable penetration in the industrial heat and transport sectors will be needed, but has been slow to date and significantly stronger policy efforts in both sectors will be required.

New Zealand has already largely decarbonised our electricity sector, which was 81 per cent renewable in 2015, third in the OECD, and represents only 6 per cent of New Zealand's total emissions. This means that, to the extent that it is desirable, New Zealand's greatest potential to reduce emissions in the energy sector lies in process heat¹ and transport, both of which have a much larger proportion of non-renewable energy than electricity.

The ability of New Zealand business to shift towards greater use of renewables in their production processes and supply chains also has implications for their international competitiveness in the face of increasingly emissions conscious export markets.

¹ Process heat is energy used for commercial processes, manufacturing or heating. For example, meat and dairy processors use steam from boilers to sanitise equipment and process raw products.

Open and competitive markets are providing the foundations for navigating this change...

New Zealand's policy settings prioritise the use of open and competitive markets, wherever possible, to deliver energy security and to keep downwards pressure on energy prices. For example, under current settings, electricity security of supply has improved and the average cost of electricity paid by residential consumers has fallen for the first time in 15 years.

These settings also mean that New Zealand is open to advances in technology, often developed as part of global efforts to de-carbonise energy systems, which is allowing consumers to take greater control of their energy needs. For example, New Zealand is experiencing the international trend of exponential growth in the uptake of solar photovoltaics (albeit off a low base) despite being uneconomic for most households at current costs.

The Government's Electric Vehicles Programme is one of the ways New Zealand can make more of new technology and leverage our existing renewable electricity advantage. New energy technology, coupled with the 'internet of things', is expected to disrupt existing business models and will test previously clear regulatory distinctions between market participants (e.g. generators versus consumers). Decisions that the government makes now could have significant implications for the Crown's potential exposure to future liabilities.

A continued focus on the effectiveness of market signals, including through the New Zealand Emissions Trading Scheme (ETS), is essential if New Zealand is to navigate these changes in a way that is economically efficient and maintains energy security, while reducing emissions.

We are responding to the context described above by...

...focusing on the role that the energy and transport sectors will play in the transition to a lower emissions economy. Within the current structure of the economy, the energy sector (including transport) presents the main area after forestry for meaningful emissions abatement. However, our largely decarbonised electricity sector (the low hanging fruit for other countries) means that our greatest potential to reduce energy emissions lies in the process heat and transport sectors. Changes in technology are offering new opportunities to reduce emissions, but these need to be balanced against the need for secure energy supply and the potential to increase the cost of energy.

...ensuring there is sustained downward pressure on prices, today and through the transition. Beyond the effect of the carbon price under the ETS, a balance needs to be struck between current patterns of economic activity and what emissions reductions are technically and economically feasible. This is important as we know that the energy and transport sectors, and therefore households and businesses as consumers, could bear the bulk costs of the transition to a lower emissions economy.

There is also a need to ensure that there is continued competitive pressure on prices for all consumer energy sources during, and beyond, this period of change. Effective competition in the electricity market is leading to lower price increases, backed by a strong regulatory work programme aimed at improving the operation of the retail and wholesale markets. On the other hand, transport fuel margins have been rising, and are a source of concern. A better understanding of the drivers of

this is important. A market study would be a worthwhile first step, prior to any potential regulatory intervention in future.

...maintaining and enhancing the quality of the regulatory environment. Promoting good regulatory stewardship is a key element of the Government's regulatory approach. MBIE's Regulatory Management Strategy 2016/17 sets out our key regulatory management issues and priorities, and provides a framework for how we will work to be a 'world-leading' regulatory steward. In light of this, MBIE is developing an Energy Charter, along with the EA, the Commerce Commission, the Gas Industry Company (GIC), and EECA to promote active management of the energy markets regulatory system.

Our market-based approach places businesses and consumers at the forefront of the response to the impacts of new technology. The speed with which this technology-driven change will play out is uncertain. It is essential to ensure that any apparent regulatory impediments to innovation in the energy sector are examined. Government may need to take a more active role where market incentives or structures impede innovation or where the outcomes may be undesirable from a broader social, environmental or economic perspective.

The Government also applies a market-led approach to exploration of New Zealand's petroleum and minerals resources. While this minimises the risks associated with direct Crown investment, it exposes New Zealand to the global commodity cycle. Certainty about the regulatory settings is a particularly important aspect in attracting investment. Mineral and petroleum development in New Zealand is advocated for by organisations such as Petroleum Exploration & Production Association of New Zealand (PEPANZ) and Straterra. We work with these organisations to ensure that their interests are understood and, where appropriate, reflected in our functions.

...and continuing to improve our management of petroleum and minerals knowledge. Geoscience information represents a strategic national asset and is fundamental to our understanding of our petroleum and mineral resources, and wider geographic features. We are currently increasing our geoscience data through field surveys in the South Island, funded through the "Resource Data Acquisition and Management" appropriation.

At present, the cost of managing and integrating the use of data across agencies, including Crown Research Institutes, faces significant constraints. Investment decisions will be needed in the medium-term to ensure that the economic and scientific potential of our geoscience information is optimised. This includes the level of public investment in geoscience data, the type of data that is acquired and dealing with aging data storage technology.

2. Portfolio responsibilities

Minister's responsibilities

As Minister of Energy and Resources you have statutory responsibilities for Vote Business, Science, and Innovation funds and appropriations (**Annex 1** provides detail on the allocation for 2016/17).

The key legislation you are responsible for is listed below, including your functions, duties and powers under each. Other legislation relevant to your portfolio is listed in **Annex 2**.

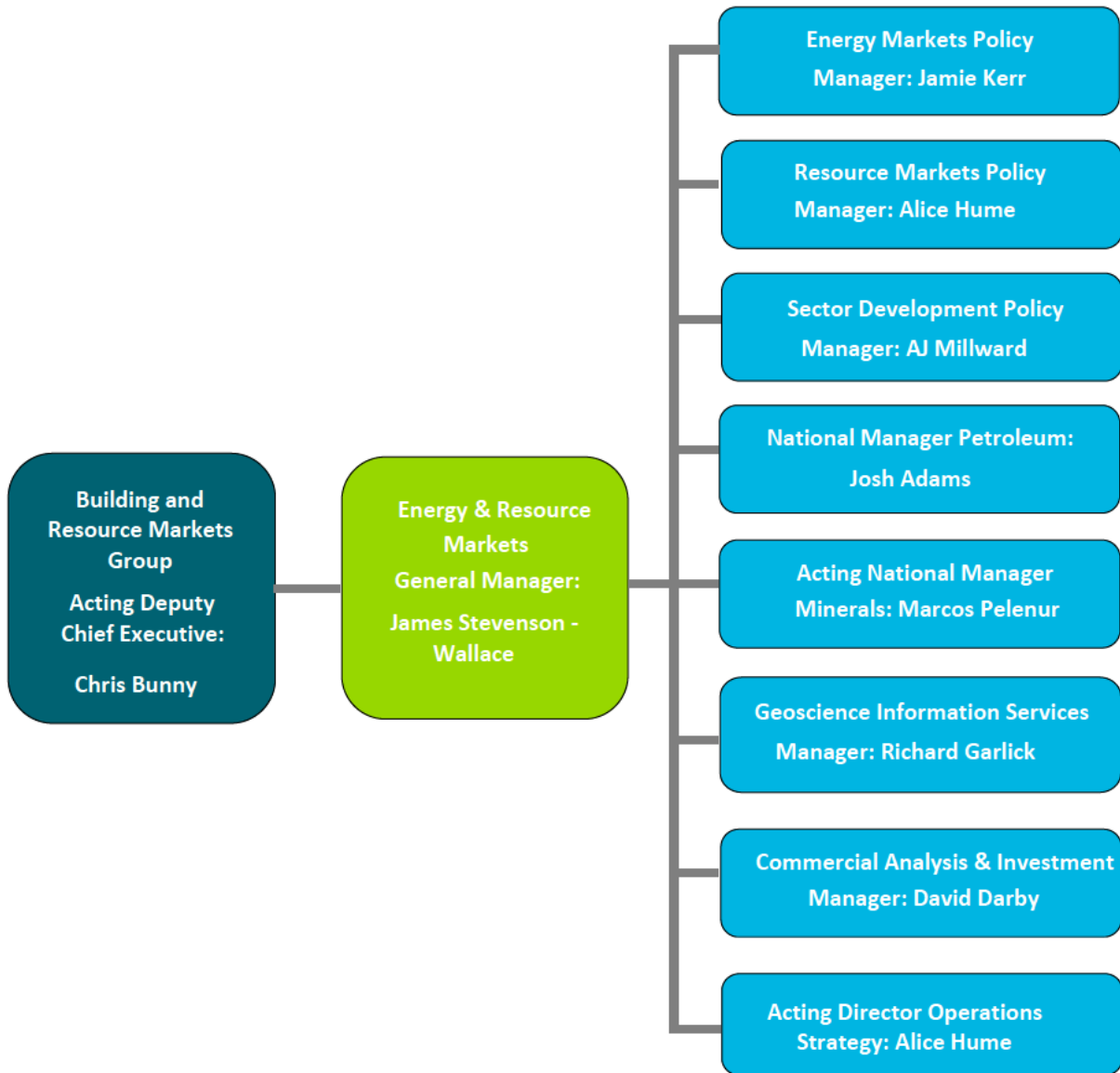
Portfolio functions and responsibilities

The Vote Business, Science and Innovation funds and appropriations provide for MBIE and associated Crown entities to undertake the following functions:

- provision of policy advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters
- monitoring the performance of five Crown Entities and statutory bodies, which are the Electricity Authority (EA), Energy Efficiency and Conservation Authority (EECA), Gas Industry Company (GIC), Electricity Rulings Panel and the Gas Rulings Panel
- managing the regime for the exploration and development of petroleum, mineral and coal resources
- promoting New Zealand for *international and domestic investment* to enable the Crown's petroleum and mineral resources to contribute to the economic development of New Zealand
- provision of *projections and analyses* of energy supply and demand and greenhouse gas emissions
- managing *statistical collections* on energy and energy sector greenhouse gas emissions
- servicing New Zealand's membership of international energy organisations, such as the International Energy Agency (IEA) and APEC Energy Working Group (details in **Annex 3**)
- ensuring appropriate regulatory settings for liquid transport fuel specifications.

Key MBIE officials

Work on Energy and Resources is undertaken by the Energy and Resource Markets branch of MBIE within the Building and Resource Markets Group. The title "New Zealand Petroleum & Minerals (NZP&M)" is used as a brand for external purposes, domestically and internationally, and encompasses the activities of the Resource functions of the Energy and Resource Markets branch.



Legislative responsibilities

The key legislation you are responsible for is listed below.

Crown Minerals Act 1991

The Crown Minerals Act sets out the management regime for Crown-owned minerals, covering policies and procedures for the efficient allocation of the Crown's minerals and for obtaining a fair financial return.

Crown-owned minerals include all petroleum, gold, silver and uranium, as well as all minerals in the territorial sea, EEZ and extended continental shelf. Other minerals (e.g. coal, iron sands, aggregates) have a mixture of Crown and private ownership. Privately owned minerals do not fall under this Act.

Your key responsibilities under this Act, many of which are delegated to MBIE, are:

- attracting applications for prospecting, exploration, or mining permits, including by way of public tender
- granting or declining permits and subsequent changes to permits (including transfers of ownership, work programme, duration and area), and revoking permits
- consulting with iwi and hapū on proposed permit application areas and participating in ongoing Treaty Settlements
- deciding whether to reserve areas of land containing Crown Minerals for more strategic allocation (a power retained by you as Minister)
- preparation of minerals programmes that explain interpretation and application of the primary legislation
- co-operation with regulatory agencies that perform functions in relation to Crown owned minerals
- collecting and disclosing information in connection with mineral resources and mineral production
- recommending regulations on a range of related matters, including for setting royalties and fees.

Electricity Industry Act 2010

The Electricity Industry Act provides a framework for the regulation of the electricity industry. It sets out the Electricity Authority's (EA) functions, objectives and monitoring and enforcement powers, and provides for the Electricity Industry Participation Code (the Code), which are the industry "rules".

The Act also sets out requirements relating to the separation of distribution and certain generation and retail activities, places an obligation on distributors to maintain supply in certain circumstances, and contains a range of regulation-making powers.

It provides for the industry consumer dispute resolution scheme, but the Minister of Commerce and Consumer Affairs is responsible for these provisions.

Your key responsibilities under this Act are:

- recommending regulations on issues such as enforcement of the Code, the industry levy, and fairness and equity
- recommending appointments to the EA and Rulings Panel.

Energy Efficiency and Conservation Act 2000

The Energy Efficiency and Conservation Act established the Energy Efficiency and Conservation Authority (EECA), and forms the legislative basis for promoting energy efficiency, energy conservation and renewable energy. It includes regulation making powers for product energy efficiency standards and labelling, as well as the disclosure of information to compile statistics on energy efficiency, energy conservation and renewable energy. Your key responsibilities under this Act are:

- ensuring that there is a National energy efficiency strategy, currently the New Zealand Energy Efficiency and Conservation Strategy (NZECS) in force, and that it is developed according to the requirements in the Act
- recommending regulations on minimum energy performance standards and labelling for energy-using products and services (including vehicles), and on data collection
- appointing the EECA Board.

Gas Act 1992

The Gas Act sets out the regulatory framework for gas, including providing for co-regulation with a gas industry body. It contains wide-ranging, regulation-making powers for gas safety, quality and measurement, as well as industry governance. Your key responsibilities under this Act are:

- recommending regulations on issues such as market governance and operation, enforcement, the industry levy, and certain consumer issues
- recommending approval of the industry co-regulator (currently the Gas Industry Company (GIC)), and appointing the Rulings Panel
- accepting or rejecting recommendations from the GIC for changes to industry rules
- recommending Orders in Council for gas operator status, which confer land access powers in relation to roads and rail crossings, and approving Gas Codes of Practice.

Crown entities

Your role in relation to Crown entities is to oversee and manage the Crown's interests in and relationship with the five entities described in this section. This includes ensuring an effective board is in place, participating in setting the entity's strategic direction and funding, and reviewing the entity's performance and management of risk.

The expectation is that all parties will adhere to the “no surprises” convention. While these entities are managed at arms-length from government, as Minister you have a number of levers to ensure you can get the performance you want.

The Energy Markets Policy team (Jamie Kerr, Manager) lead MBIE’s engagement with these entities, and will support you in your oversight and management role.

Electricity Authority

The EA is an independent Crown entity established under the Electricity Industry Act 2010, and is responsible for regulating the electricity market. While the nature of an independent Crown entity’s functions involves independence from Ministerial intervention, there is still an expectation of dialogue on strategic direction and annual expectations.

Current members of the EA Board are: Dr Brent Layton (Chair), David Bull, Susan Paterson and Hon Roger Sowry. Recruitment for new Board members is underway. The Chief Executive is Carl Hansen.

The statutory objective of the EA is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. The EA's main functions include:

- making and administering the rules governing the electricity industry through an Electricity Industry Participation Code
- monitoring compliance with the code and other provisions in the Electricity Industry Act and regulations and taking enforcement action
- undertaking market facilitation measures such as education and providing guidelines, information and model arrangements
- industry and market monitoring, and carrying out reviews, studies and inquiries into matters relating to the industry
- contracting for market operation services and system operator services.

Electricity Industry Rulings Panel

The Electricity Industry Rulings Panel is a specialist dispute resolution and disciplinary body that determines complaints of breaches of the Electricity Industry Participation Code 2010 by industry participants, as referred to it by the EA. It also determines certain disputes between participants and hears appeals on specific decisions by the System Operator (Transpower).

The panel is appointed by the Governor-General on your recommendation. Before making a recommendation, you must first consult with the Minister of Justice and the EA. Current members are Peter Dengate Thrush (Chair), Geraldine Baumann (Deputy Chair), Susan Roberts, Nicola Wills and John O’Sullivan.

Gas Industry Company

The GIC is the private industry body that co-regulates the gas industry with you (as the Minister) under the Gas Act 1992. Under the Gas Act, GIC has powers to recommend certain gas governance regulations to you, and you have the power to accept or reject those recommendations. For certain issues, you may only promulgate regulations that are based on a recommendation from GIC. For others, you must provide GIC a reasonable opportunity to make a recommendation to you before promulgating regulations. These constraints on your powers are designed to capture the benefits of industry self-governance, while ensuring that there is high-level ministerial oversight of the industry.

Current directors on the GIC board are Rt Hon James (Jim) Bolger (Chair), Robin Hill (Deputy Chair), Andrew Brown, Keith Davis, Nigel Barbour, Gabriel Selischi and Dennis Barnes. The Chief Executive is Steve Bielby.

Gas Industry Rulings Panel

The panel is the final arbiter of disputes arising from activities under gas governance rules and regulations. The panel will approve or reject settlements recommended following investigation, determine unresolved matters and make orders, including remedies and penalties.

The panel is appointed by you following nomination by GIC. The current panel is Hon Justice John Hansen.

Energy Efficiency and Conservation Authority

EECA is a Crown Entity established under the Energy Efficiency and Conservation Act 2000. It has responsibility for working to improve New Zealanders' energy choices across all sectors of the economy. The Energy Efficiency and Conservation Act 2000 requires EECA to encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy.

EECA's work programme focuses on the delivery of the actions outlined in the NZEECS that are assigned to EECA as the delivery agent. EECA also works closely with other government agencies to help them to design, implement and monitor policies to promote energy efficiency and make better use of New Zealand's abundant renewable energy resources. As a Crown agent, EECA must give effect to government policy when directed by the responsible Minister.

A new Chief Executive, Andrew Caseley, is expected from 24 January 2017. Current Board members are Tom Campbell (Chair), Marion Cowden (Deputy Chair), David Coull, Elena Trout, Hon Phil Heatley, Janet Carson and Mervyn English. From 1 February 2017, Catherine Taylor will replace Marion Cowden as Deputy Chair, and Karen Sherry will replace Mervyn English as a member. These new Board appointments have been confirmed by Cabinet, but have yet to be announced.

Related Crown entities

WorkSafe New Zealand – Energy safety

Electricity and gas safety issues are regulated slightly differently from other electricity and gas issues. WorkSafe New Zealand is the regulator of energy safety and has the function of monitoring and enforcing compliance with safety and other elements of electricity and gas legislation. As the Minister for Workplace Relations and Safety has oversight of WorkSafe, this is an area of overlap between the Energy and Resources and Workplace Relations and Safety portfolios.

Within your responsibilities under the Electricity Act 1992, you are required to sign-off on any energy safety Standards that are incorporated by regulation under that Act. On this basis, we will brief you on energy safety policy matters and copy briefings to the Minister of Workplace Relations and Safety as appropriate.

Electricity and Gas Standards are cited throughout the Electricity (Safety) Regulations and Gas (Safety and Measurement) Regulations and provide the technical detail of how compliance with various aspects of the Regulations can be met. Changes to these standards occur regularly and the Standards and Accreditation Act 2015 requires the New Zealand Standards Executive to notify you of any amendments to standards cited in legislation you are responsible for. MBIE, with technical input from WorkSafe New Zealand, will provide information about the changes to any cited standards as they arise, and will advise on whether any regulatory change is required.

MBIE will also advise you on matters relating to the electrical safety of electric vehicle (EV) charging, which is an area of overlap with the Transport portfolio. WorkSafe New Zealand has produced guidance to clarify how industry can meet best electrical safety practices for charging EVs and MBIE updated the previous Minister on the outcome of our assessment of the Electricity (Safety) Regulations, which determined that no changes are necessary to the regulations at this time. We have identified as low-risk a potential lack of clarity around which safety standards suppliers of EV charging equipment need to comply with. This can be addressed by incorporating international EV safety standards by reference into Schedule 4 of the Regulations.

Under Phase 2 of development of the Health and Safety at Work Regulations, MBIE will be considering policy matters relating to the Electricity (Safety) Regulations, including regulations concerning the working practices of electrical workers and whether these would fit better within the work health and safety legislative framework. Over the next year, MBIE intends to begin discussions with industry and other stakeholders relating to electrical safety to help inform the development of any future policy proposals in this area. We consider that the technical change relating to EVs can be made as part of this work, at which point we will also update citations of other standards referenced in the regulations and consider the need to review the regulations more generally. MBIE will brief you and the Minister for Workplace Relations and Safety on this as it progresses.

3. Key issues and decisions

We have identified the following policy and operational issues for your immediate attention and decision over the next 90 days. You will receive further advice on each issue over the coming weeks, and we welcome the opportunity to engage early on these matters.

Immediate issues

Energy targets

The previous Minister of Energy and Resources announced the Government's intention to develop new, aspirational energy targets in March 2016. These targets would complement the existing target for 90 per cent of electricity to come from renewable sources by 2025, which taps into New Zealand's renewable resource advantage.

The purpose of the proposed targets is to respond to energy sector participants' request for greater government direction and leadership in a changing energy context, and to provide a platform for collaboration.

s 9(2)(f)(iv)

Ultimately, the targets are intended to:

- *improve our energy productivity*, which will lead to decreased costs and enhance our business competitiveness, and
- *broaden the share of renewable energy*, recognising that our greatest potential to reduce emissions lies in our process heat and transport sectors.

Replacing the New Zealand Energy Efficiency and Conservation Strategy

Alongside the energy targets, MBIE is leading a refresh of the New Zealand Energy Efficiency and Conservation Strategy (NZECS) to ensure it is up-to-date and reflects Government's priorities. The NZECS is a companion to the New Zealand Energy Strategy 2011-2021 (the NZES)², which remains the Government's primary statement of New Zealand's energy policy.

As required under the Energy Efficiency and Conservation Act 2000, a draft replacement NZECS for 2017 to 2022 is currently out for public consultation (until 7 February 2017). The intent of the NZECS is to set the overarching policy direction for government support and intervention for the promotion of the co-benefits of energy efficiency and renewable energy use for emissions abatement. It will also guide the work programme of EECA over the next five years.

Together, the refreshed NZECS and new energy targets will provide clear direction for future policy and action, and help address the request for greater government leadership in the transition to a lower emissions economy. The intent is to use these tools to guide investment towards

² The NZES sets out the role energy will play in the economy, through four priorities: diverse resource development, environmental responsibility, efficient use of energy, and secure and affordable energy.

opportunities to reduce energy-related emissions, through smarter use of energy and renewable resources, while taking into account the expected changes in the economics of energy technologies and practices.

Energy Innovation (Electric Vehicles and Other Matters) Amendment Bill

The *Energy Innovation (Electric Vehicles and Other Matters Bill)*, is an omnibus Bill supporting changes to reduce our emissions and improve energy productivity, while ensuring our legislation can accommodate innovation. The Bill had its First Reading in the House in early November 2016 and is now with the Commerce Select Committee. It will implement the following specific policies:

- to expand the purpose of three existing energy levies to enable recovery of the costs of any activities of EECA
- to encourage the uptake of electric vehicles (Transport portfolio changes)
- to apply electricity legislation to secondary networks³ in order to provide certainty for the EA in enforcing electricity industry requirements, levying secondary network owners, and improving consumer access to the Electricity and Gas Complaints Commissioner scheme.

s 9(2)(f)(iv)

³ Examples of secondary networks are electricity networks that are indirectly connected to the national grid via one of the 29 distribution companies, such as shopping malls, airports and apartment buildings.

s 9(2)(f)(iv), s 9(2)(g)(i)

s 9(2)(f)(iv)

Decommissioning of offshore oil and gas field infrastructure

There are significant costs associated with decommissioning offshore oil and gas field infrastructure, with associated tax and royalty rebates liabilities for the Crown which mean the Crown will effectively pay for approximately 42 per cent of the cost. New Zealand has five offshore fields with s 9(2)(b)(ii) scheduled to commence decommissioning in s 9(2)(b)(ii). A Ministerial group, which you lead, has been established to oversee this issue.

Agencies are working to ensure future regulation in this area is fit for purpose. Regulations will be developed under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act (EEZ Act) to better manage decommissioning; these have the potential to significantly increase decommissioning costs in the future. The regulations are dependent on empowering provisions to be provided for by amendments to the EEZ Act, which are being progressed through the omnibus

Resource Legislation Amendment Bill (yet to be reported back to the House). A report completed by Inland Revenue on the fiscal implications for the Crown has been submitted to Cabinet.

Merger and acquisition activity in the resources sector

The level of merger and acquisition activity has increased significantly in New Zealand's petroleum sector over the last 12 months and this is expected to continue in to 2017.

Transfers of control and ownership are regulated by MBIE under the Crown Minerals Act. The Crown has a significant interest in ensuring that potential new owners or controlling entities of oil and gas assets have the capability to operate oil and gas assets in a way that does not result in potential liabilities falling to the Crown, which has the potential to be very large.

Recent activity includes:

- Shell initiated a process to divest its share of the Kapuni, Maui and Pohokura fields;
- New Zealand Oil and Gas agreed to sell its 15 per cent share in the Kupe field to Genesis Energy; and
- Origin Energy announced its intention to sell its oil and gas assets via an initial public offering, which includes its share of and operatorship of the Kupe field, having previously sold the Rimu-Kauri-Manutahi Field to a new entrant called Westside Corporation.

s 9(2)(g)(i)

Sale of the Solid Energy assets

Solid Energy, a state owned enterprise, is the largest coal mining company in New Zealand. In August 2015, it was put into voluntary administration, and has been working with the Crown and others to manage the sale of its assets. The break-up and sale of the Solid Energy assets will result in an estimated 45 transfer applications, which are regulated by the Crown Minerals Act 1991 and the Crown Minerals (Other than Petroleum) Regulations 2007.

As part of the asset transfers, you will be required to consult with the Minister of Finance and the Minister of State Owned Enterprises to mitigate the risks posed from the transfer of grandfathered environmental conditions attached to Coal Mining Licences. This consultation was a recommendation by the Parliamentary Commissioner for the Environment and was accepted by the Minister of Energy in 2009. The Solid Energy transfers are also time sensitive due to clauses in the sales and purchase agreements that require numerous government approvals to be obtained prior to the expiry of those agreements.

International Energy Agency report on New Zealand's energy policies

The IEA, in accordance with its functions, has undertaken a country-in-depth review of New Zealand's energy policies and is due to release a report in February 2017. s 9(2)(f)(iv)

Transmission Pricing Methodology in Electricity

The EA is reviewing the Transmission Pricing Methodology (TPM) guidelines and the Distributed Generation Pricing Principles (DGPPs) for the electricity sector. The TPM determines how Transpower's⁴ regulated revenue of transmission charges (set by the Commerce Commission) is allocated among its connected customers. The DGPPs are fall-back regulated terms and conditions for how distributors may charge and make payments to generators connected to distribution networks.

The EA proposed changes to the TPM guidelines in May 2016 (its second proposal). This work is a continuation of a review initiated by its predecessor, the Electricity Commission over a decade ago. It has since conducted further analysis and made further refinements in response to submissions, which it is now about to consult on (its third proposal). The EA released a TPM paper for consultation on 6 December, with submissions closing on 24 February 2017. At the same time the Authority released a final decision on the DGPP.

Consultation on transmission pricing methodology guidelines is due to end on 10 February 2017. While the Authority expects to complete the proposal by April 2017, Transpower has to then convert these guidelines into a workable methodology that the EA will accept. It is expected that the revised transmission pricing methodology will not be in place before 2020.

Both issues remain controversial with a significant number of stakeholders opposed, including Vector, Entrust and the Employers and Manufacturers Association.

⁴ Transpower owns and maintains the national electricity grid.

Policy and operational decisions

Issue	Detail	Timing
<i>Policy and operational decisions</i>		
New Zealand Energy Efficiency and Conservation Strategy (NZECS)	A draft replacement NZECS, was approved by Cabinet in December, and is out for public consultation until 7 February 2017	s 9(2)(f)(iv)
s 9(2)(f)(iv)	s 9(2)(f)(iv)	s 9(2)(f)(iv)
Energy Targets	The former Minister of Energy and Resources decided to develop new energy targets, and this was noted by Cabinet in March 2016. s 9(2)(f)(iv)	s 9(2)(f)(iv)
<i>Energy Innovation (Electric Vehicles and Other Matters) Amendment Bill</i>	The objective of this omnibus Bill is to support a reduction in emissions and improvement in energy productivity, while ensuring our legislation can accommodate innovation. The Bill has been referred to the Commerce Committee	1 February 2017 – submissions close s 9(2)(f)(iv)
Updating the <i>Engine Fuel Specifications Regulations 2011</i>	In November 2016, Cabinet agreed to amend the <i>Engine Fuel Specifications Regulations 2011</i> . The amendments primarily improve choice and market-led innovation in fuel mix, and lock in a reduction in harmful emissions. s 9(2)(f)(iv)	s 9(2)(f)(iv)
s 9(2)(f)(iv)	s 9(2)(f)(iv)	s 9(2)(f)(iv)
<i>Gas Industry Company</i>	Under the co-governance arrangement for	s 9(2)(f)(iv)

Issue	Detail	Timing
<i>Levy Regulations</i>	the gas industry set out in the Gas Act 1992, the GIC makes an annual recommendation to you on its levy rate and work plan. You are required to take the recommendation to Cabinet.	s 9(2)(f)(iv)
s 9(2)(f)(iv)	s 9(2)(f)(iv)	s 9(2)(f)(iv)
Sale of Solid Energy assets	Transfers of multiple coal mining permits will be made under delegated authority but officials will brief you on outcomes and any issues arising	December 2016 – June 2017
Offer of Solid Energy mineral titles to the Crown	Solid Energy is disposing of its private mineral titles. A briefing and recommendation will be prepared for you	December 2016 – February 2017
Block Offer 2017 (petroleum exploration permits)	You will need to make a decision on release areas that companies can bid on for Block Offer 2017	February 2017
s 9(2)(f)(iv)	s 9(2)(f)(iv)	s 9(2)(f)(iv)
Treaty Settlements	You will need to issue Relationship Agreements with Taranaki Tri-Iwi (Ngāruahine, Te Atiawa, Taranaki iwi) and a Crown Minerals Protocol with Rangitāne o Manawatu	First quarter 2017
<i>The following issues also have significant implications for your portfolio...</i>		
Transmission Pricing Methodology	The EA is consulting on revised guidelines that Transpower and the EA must follow when setting the Transmission Pricing Methodology, which apportions that cost of electricity transmission to consumers	24 February 2017 – consultation on revised TPM guidelines ends 1 April 2017 – the Authority intends to finalise the Methodology
Offshore Installations Financial Assurance regime (review and rule change)	The Ministry of Transport and MBIE are reviewing the overall financial security regime for offshore installations. Proposals involve increases in the level of assurance based on	December 2016 – Release of Discussion document First quarter 2017 Maritime Transport Act Rule change

Issue	Detail	Timing
	possible impacts of oil spills from each installation	(Minister of Transport lead)
Consideration of offshore marine consent application	A second marine consent hearing on a Trans-Tasman Resources mining proposal is underway by the Environmental Protection Authority. Following two earlier rejections of applications, this decision will significantly influence the future of offshore mining	First quarter 2017 – EPA hearing due to finish
Marine Protected Areas review	The Ministry for the Environment is leading a review with the objective of providing a comprehensive protection network in the marine space. There are implications for rights under Crown Minerals Act permits for prospecting and exploration	s 9(2)(f)(iv)
<i>Revised Code of conduct for minimising acoustic disturbance to marine mammals from seismic survey operations</i>	DOC is revising its 2013 Code of Conduct for offshore seismic surveying (a non-invasive prospecting technique to acquire geological information). This has implications for operators and is important from an investment attraction perspective.	s 9(2)(f)(iv)
MBIE's Regulatory Management Strategy 2016/17	s 9(2)(f)(iv)	s 9(2)(f)(iv)

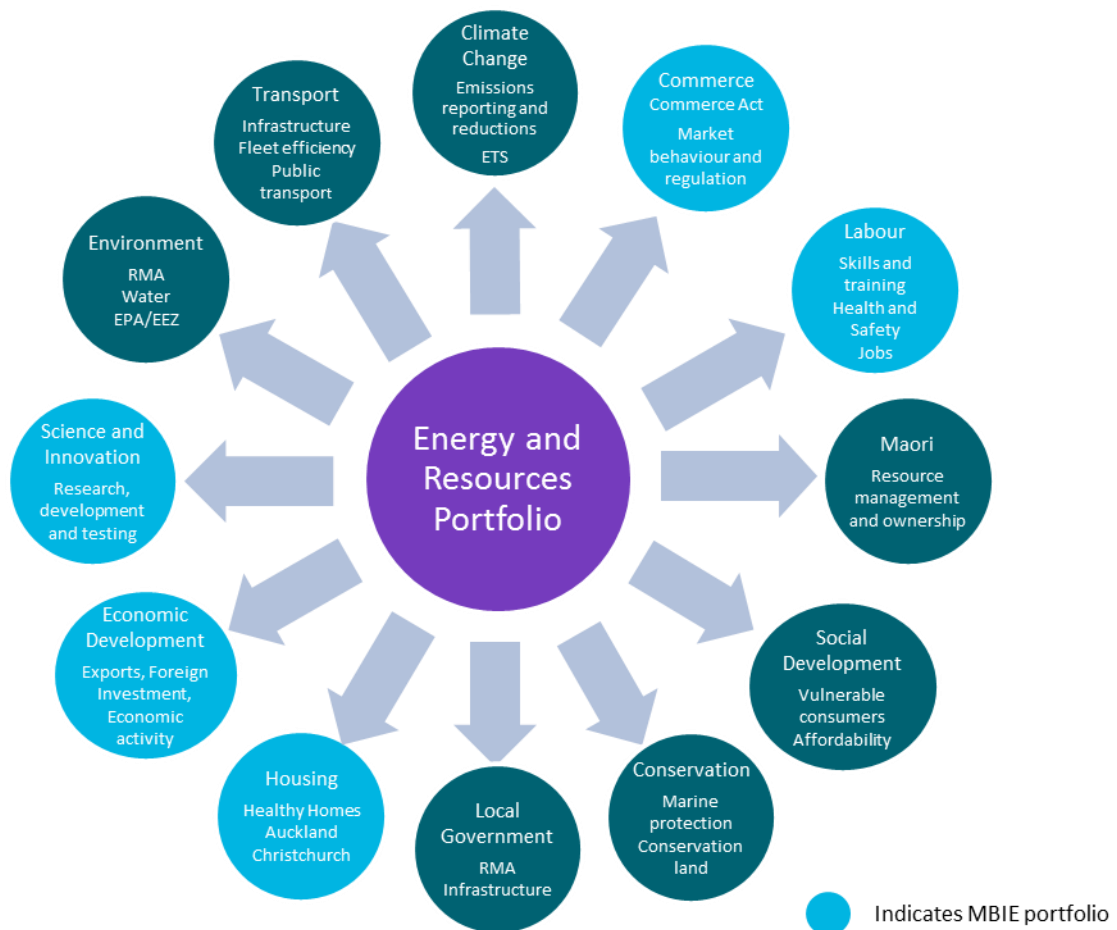
Upcoming events, publications, appointments, and announcements

Issue	Reason	Timing
Attendance at events		
New Zealand Petroleum Conference	Announcement and launch of 2017 Petroleum Block Offer, New Plymouth	22 March 2017
Other announcements		
EA board appointments	You will receive advice on candidates suitable for appointment to the Electricity Authority board	s 9(2)(f)(iv)
Release of Energy Quarterly	Data and analysis on energy supply, demand, prices and associated greenhouse gas emissions. This publication is released quarterly and is part of the suite of energy publications produced by the Energy and Building Trends Team	22 December 2016 and s 9(2)(f)(iv)

4. Major links with other portfolios

This portfolio also has important links with a number of other portfolios. The key relationships are outlined in the following diagram.

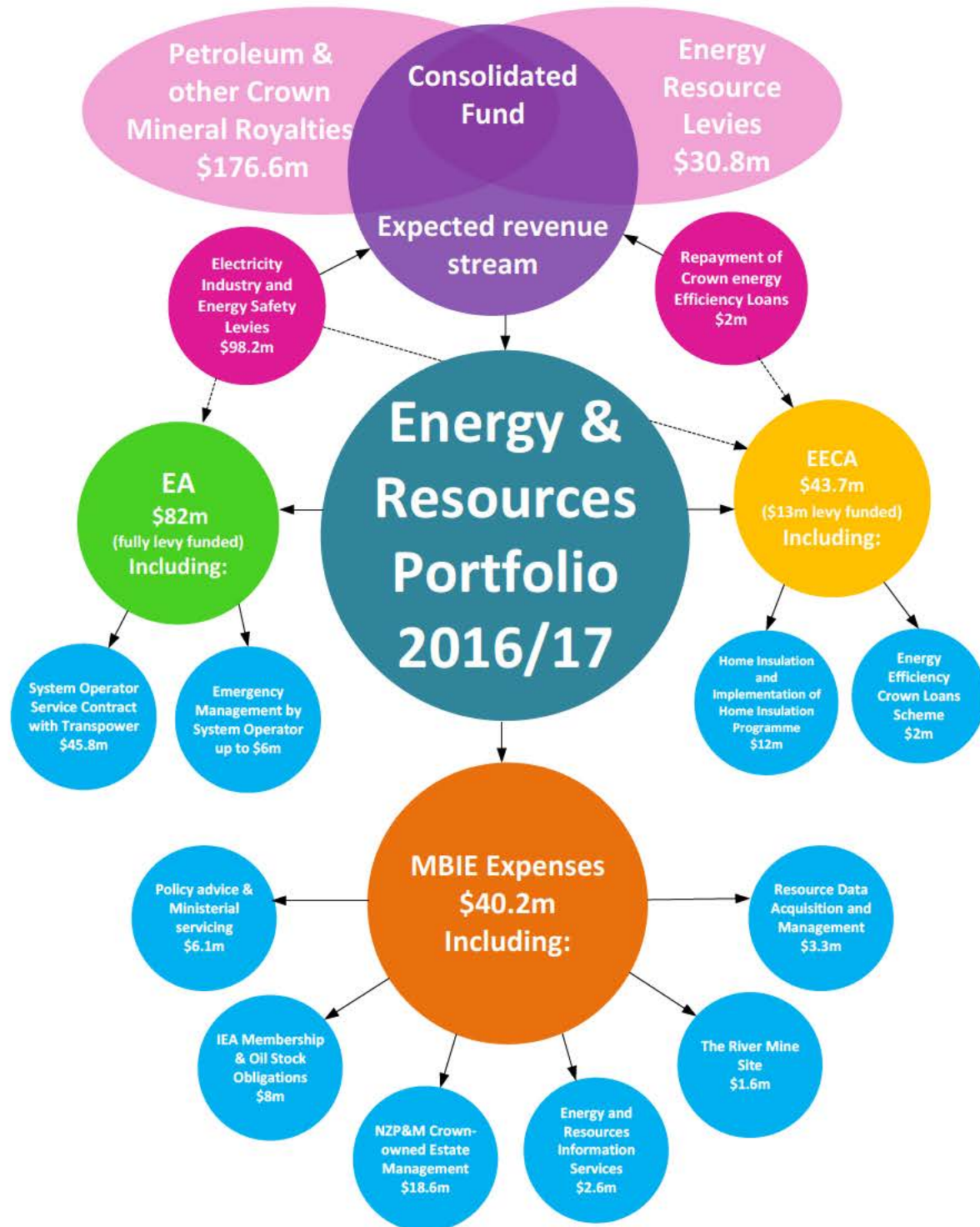
The State Owned Enterprises (SOE) portfolio is also significant due to two key SOEs in the energy and resources sector – Solid Energy (as the single largest Crown minerals permit holder) and Transpower (who plan, build, maintain and operate the national electricity grid).



5. Annexes

Annex 1: Funds and appropriations

As Minister of Energy and Resources, you are responsible for the following:



Annex 2: Relevant legislation

Key legislation is set out in Section 2 (the Crown Minerals Act, Electricity Industry Act, Energy Efficiency and Conservation Act and Gas Act). Other legislation core to your portfolio is:

Electricity Act 1992 – sets out the regulatory framework for electricity supply and contains wide-ranging regulation-making powers for matters of electrical safety, quality and measurement. As Minister, you may grant and revoke applications for electricity operator status, conferring or removing land access powers in relation to roads and rail crossings.

Atomic Energy Act 1945 – sets out the regulatory framework for the means of producing atomic energy in New Zealand, including the mining of uranium and other substances that may be used for the production of atomic energy and the vesting of such substances in the Crown.

Energy Companies Act 1992 – provided for the formation of energy companies, the vesting in such companies of the undertakings of electric power boards and the electricity and gas undertakings of local authorities, and the dissolution of electric power boards.

Energy (Fuels, Levies and References) Act 1989 – provides for the recovery of costs via levies for activities undertaken by the Crown in relation to electricity, gas, and engine fuels such as safety activities and oil stocks obligations.

Energy Resources Levy Act 1976 – imposes a levy on the production of open-cast coal and natural gas produced from discoveries made before 1 January 1986. The levy was introduced in the mid-1970s to adjust price relativities between oil, gas and coal in response to the international oil shocks at the time. Revenue from this levy is paid into the Consolidated Fund.

Lake Taupo Compensation Claims Act 1947 – relates to agreements about the control of the Waikato River for the purposes of flood control and electricity generation. The act sets a maximum working level for Lake Taupo which you can alter by Gazette notice, and also provides the basis on which compensation will be assessed for any claims in relation to the control of the lake level.

Manapouri – Te Anau Development Act 1963 – your role under this Act is to notify by Gazette notice the operating guidelines for the levels of the two lakes which are recommended by the Guardians of Lakes Manapouri and Te Anau (appointed by the Minister for Conservation).

Ngai Tahu (Pounamu Vesting) Act 1997 – formally made Te Runanga o Ngāi Tahu responsible for the ownership and management of pounamu.

Petroleum Demand Restraint Act 1981 – authorises regulation-making for the purpose of restraining demand, reducing consumption or ensuring the equitable distribution of processed petroleum products if they are, or are likely to be, in short supply.

Petroleum Demand Restraint (Regulations Validation and Revocation) Act 1981 – validated and confirmed regulations made under the Petroleum Demand Restraint Act 1981 and also revoked certain regulations continued in force by that Act.

Petroleum Sector Reform Act 1988 – removed licensing requirements for retailing and wholesaling of petroleum products, thereby completing the deregulation of the sector.

Synthetic Fuels Plant (Effluent Disposal) Empowering Act 1983 – gives the right to discharge plant effluent.

Annex 3: Key international energy relationships and agreements

The key international engagements within this portfolio are listed below.

Council of Australian Governments (COAG) Energy Council

You are a member of the COAG Energy Council, along with energy and resources Ministers from the Australian states and territories. The Council was created when the COAG Ministerial Councils were streamlined. While the Council's focus is on Australian issues, it is a useful forum for trans-Tasman discussions on areas of common interest, and provides a vehicle for information sharing and collaboration. The Council oversees the joint Equipment Energy Efficiency (E3) programme that EECA is associated with.

International Energy Agency (IEA) and the International Energy Programme (IEP)

The IEA is an autonomous agency within the Organisation for Economic Co-operation and Development (OECD) and is New Zealand's principal international energy relationship. It was established following the 1973/1974 oil crisis to implement measures to mitigate the risks of future oil supply disruptions. Ministerial meetings are biennial and the next meeting is in November 2017.

As a member of the IEA and signatory to the IEP, we are required to hold petroleum reserves equivalent to 90 days of net imports. We currently comply with this obligation by augmenting local stocks with bilateral treaties/agreements to hold stock in other IEA countries, namely Denmark, Japan, the Netherlands, Spain, and the United Kingdom. Singapore was recently accepted as an associate member of the IEA.

s 9(2)(f)(iv)

Asia-Pacific Economic Cooperation (APEC) Energy Working Group (EWG)

The APEC EWG is one of eleven officials-level APEC sectoral working groups. It has a programme of work to maximise the energy sector's contribution to the APEC region's economic and social wellbeing.

The EWG helps further APEC goals to facilitate energy-related trade and investment and seeks to maximize the energy sector's contribution to the region's economic and social well-being, while mitigating the environmental effects of energy supply and use. APEC energy Ministers meet approximately once every two years. New Zealand is due to host the 54th APEC EWG meeting in Q4 2017.