Te Waka
Waikato Economic Development

2 November 2023

Ministry of Business, Innovation and Employment
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Attn: Advancing New Zealand's Energy Transition Submissions

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Tēnā koe,

Waikato Regional Economic Development Agency "Te Waka" Submission to the Discussion Documents for Advancing New **Zealand's Energy Transition**

Thank you for the opportunity to submit on the suite of discussion documents for Advancing New Zealand's Energy Transition. Please find attached the Te Waka submission regarding this consultation. In addition to providing general feedback, where relevant we have structured our submission to align to the individual discussion documents.

Should you have any queries regarding the content of this document please contact Fiona Carrick, Chief Executive Officer, by email or phone.

Introduction

Te Waka is the authority on how best to power up the Waikato economy for the benefit of Aotearoa. We facilitate cross-regional collaboration with local government, sectors, business, communities, markets, and investors.

As an economic development agency, we have engaged with industry and iwi in developing this submission and aim to reflect their views and strong interest in the future of our energy sector. We do not have specific comments on many of the technical questions outlined in the various discussion documents. Instead, we have provided general responses to the consultation documents, and where relevant have structured our submission to align with the chapter topics.

Executive summary

Our overall position is that we are supportive of the government's work to make Aotearoa New Zealand's energy system more renewable and enabling of a low-emissions economy. As the economic development agency for a high-emissions region with significant existing and future potential for renewable energy generation, we recognise the scale of the opportunity that the energy transition presents for the Waikato region and Aotearoa.

At a principles level, we support the development of an energy system that:

- Enables investment in abundant renewable energy that enables decarbonisation, creates new export market opportunities, and improves energy affordability.
- Meets the Crown's Treaty obligations with respect to natural assets and creates meaningful opportunities for iwi/mana whenua to engage, including commercially, to ensure their communities benefit from the energy transition.
- Encourages competition and efficiency, provides flexibility to adapt to changing market conditions and technological change, and ensures resiliency of energy supply.

We have provided specific feedback in the body of this submission document, with a particular focus on the regulatory framework for offshore renewable energy. This echoes our submission to MBIE on the "Enabling Investment in Offshore Renewable Energy" discussion document in April 2023, and reflects the opportunity we see for the Waikato. As a region with a long coastline that is exposed to strong winds and waves, the region is well-suited for offshore energy development.

We support the government's development of an overarching national energy strategy and would encourage an acceleration of the work to define this strategy with urgency. A clear national strategy is needed to guide specific regulatory decisions that are currently being considered, along with regional-level decision-making and planning that is underway.

About Te Waka

Te Waka is the Waikato region's economic development agency. Established in 2018, we're a business led and governed organisation dedicated to driving economic growth in the Waikato. Our Mission is lifting economic performance across the Waikato by attracting, retaining, and growing investment, talent business and championing the region's collective voices for economic and business needs and opportunities. We want to propel the Waikato to reach its full potential.

Te Waka works in partnership with iwi, business, government, and community to get things done and unearth opportunities that will lead to jobs, prosperity, and sustainable economic growth. Te Waka is a limited liability company and is owned by the Waikato Regional Economic Development Trust. This means we are able to be nimble, act independently and move with pace. We have a skills-based Board of Directors, none of whom are elected representatives.

Developing a Regulatory Framework for Offshore Renewable Energy

General Comments

1. As expressed in our submission on the "Enabling Investment in Offshore Renewable Energy" discussion document in April 2023, Te Waka is supportive of the government's work to introduce a regulatory regime for offshore renewable energy. Offshore renewable energy sources have the potential to reduce our reliance on fossil fuels, create jobs, and facilitate economic growth with new and emerging industries.

2. The Waikato region is well positioned to actively contribute to this future. The region has a long coastline that is exposed to strong winds and waves, making the region well-suited for offshore energy development. This has been further evidenced by interest from multiple offshore wind investors actively exploring investment opportunities in the region.

3. We are generally supportive of the intended approach and direction outlined in the second discussion document for offshore wind regulation. As per our submission on the first discussion document, we continue to encourage MBIE to take lessons from international markets that have a mature offshore renewable sector.

4. In our engagements with industry, the challenges and risks associated with international supply chains for offshore wind have been highlighted as an area of concern. Aotearoa New Zealand will be competing with international markets that have more mature offshore wind industries and arguably stronger imperatives for investment in renewable energy generation.

5. Global supply chains for offshore wind are currently very constrained, and our relatively small scale is likely to make it difficult for us to compete for scarce resources. We therefore encourage MBIE to consider supply chain dynamics in its regulatory planning for offshore wind, to ensure we are optimising our ability to attract investment and establish a local offshore wind industry. This may require consideration of how we align with Australian regulatory models and frameworks, as an enabler for industry partnerships and collaboration to help establish the industry in this part of the world.

6. Measures such as streamlined consenting processes, support for iwi engagement, funding support, support for investment in enabling infrastructure, and data sharing will also help enable the development of offshore renewable energy projects in the region and throughout Aotearoa New Zealand.

Chapter 4: Further detail on feasibility permits

7. We are supportive of a competitive tender process for the awarding of feasibility permits. Given the very long-term nature of investment in offshore wind developments, it will be important to ensure that adequate time is given for multiple developers to participate in tender rounds, particularly if an 'open-door approach' is adopted.

Chapter 5: Commercial permits

8. We note some strong industry concerns about the introduction of a mechanism that would allow the government to compare projects at the commercial permitting stage.

We encourage the government to consider these industry concerns carefully to ensure that the regime appropriately balances investment attraction and competition. It is important that the permitting regime doesn't create disadvantages for offshore projects compared to onshore projects, and that generation-only developers are able to compete on a level playing field with gentailers.

9. There is a significant inter-relationship between the framework for awarding commercial permits and decisions on whether to introduce a Contracts for Difference (CFD) mechanism. An auction framework for CFDs could be used in scenarios where there are more projects with commercial permits than are needed by the market. The auction framework could incorporate both price and non-price elements to ensure that successful projects are selected based on a range of desired outcomes.

10. We agree that regular reporting will be important to track delivery against the commercial assessment criteria, to ensure benefits to the country and local communities are realised, while ensuring commercial viability of the project to deliver clean energy outcomes. We believe there should be a clear reporting and enforcement model defined and established prior to commercial permits being granted, to provide certainty to developers on their obligations. There should also be an appropriate level of public/community visibility of this reporting and review process, particularly for iwi/mana whenua.

Chapter 6: Economics of the regime

11. We see value in the government implementing some form of revenue stabilisation regime for large scale renewable energy generation projects (not limited to offshore wind). Feedback we have received from industry is that it is difficult to secure power purchase agreements (PPAs) that have enough scale and long-term commitment to enable the level of investment that will be required for offshore wind projects.

12. We consider that any revenue stabilisation regime should be applicable to all forms of renewable energy generation, to allow the market to determine the appropriate mix of energy generation types in Aotearoa New Zealand. However, any revenue stabilisation mechanisms should be targeted at large scale generation projects that will drive national scale benefits.

13. We also note that government support has been critical for the establishment of our existing large scale renewable energy generation plants. Most of the renewable generation in our energy system today was built at a time when the system was wholly managed by the government or state-owned enterprises.

14. Any form of royalties or revenue gathering regime from the government will increase project costs which will ultimately flow through to consumer prices for electricity. We also note our general comments above about the challenges Aotearoa New Zealand is likely to face in competing for scarce supply chain resources to establish a local offshore wind industry. A royalty or revenue gathering regime could make it harder for us to compete globally in this resource constrained environment.

15. If the government was to introduce a revenue gathering regime, any funds gathered should be ring-fenced and allocated for a specific purpose that relates to the energy sector, such as:

a. Helping to fund revenue support mechanisms for developers.
b. Supporting investment in enabling infrastructure, such as transmission and distribution networks.
c. Supporting energy equity programmes.
d. Supporting local communities that are most impacted by renewable energy projects (including local iwi/mana whenua).

16. Any revenue gathering regime should apply equally across all forms of renewable energy generation and not be limited to offshore wind, to avoid artificially distorting investment incentives against offshore wind.

17. We support the imposition of a cost recovery regime to enable the government to meet the costs of administration, including the costs of resourcing iwi/mana whenua to ensure they can engage appropriately. It will be important that the cost recovery regime includes incentives for the government to operate efficiently, which could include ensuring an independent body is responsible for setting the cost recovery level.

18. We can see the value in an application fee which would deter 'tyre-kickers' and consider that any annual fee should be proportionate to the size of the project. We also support commercial fees being set higher than feasibility fees.

Chapter 7: Māori rights and interests and enabling iwi and hapū involvement

19. We strongly support the promotion of iwi, hapū and whānau involvement in the development of offshore wind projects and understand the potential environmental and cultural impacts in the moana. It is important that the Crown ensures it meets its Treaty obligations with respect to natural assets in the development of the offshore energy industry.

20. We encourage the government to ensure iwi/mana whenua are adequately resourced to participate meaningfully, from the development of the regulatory framework through to opportunities for commercial participation.

Chapter 8: Interaction with environmental consenting processes

21. We encourage the government to seek opportunities to simplify and ensure consistency of consenting processes. In principle, we support the avoidance of duplication between the consenting and permitting frameworks.

22. We also would support efforts to ensure the environmental consenting agency is appropriately resourced to undertake and complete its consenting process within reasonable, clearly defined timeframes. Guidelines to developers for environmental baseline monitoring and environmental impact assessments would also be helpful in streamlining consenting processes.

Chapter 9: Enabling transmission and other infrastructure

23. Our current regulatory frameworks do not adequately support Transpower to invest proactively to meet future growth in generation. There is a 'chicken and egg' problem whereby Transpower cannot invest without certainty of demand from generators, and

generators cannot invest without certainty of Transpower's intention to invest to meet their demand.

24. Our regulatory frameworks therefore need to be updated to support proactive investment in enabling transmission. The Renewable Energy Zone (REZ) model could be helpful in this regard, providing clear direction on geographic priorities for investment based on expected high levels of investment in new generation capacity.

25. Port infrastructure will also be critical for the development of an offshore wind industry and associated new growth industries. We see a role for government in supporting coordination and providing appropriate incentives for investment in port capabilities for the long term.

Chapter 10: Decommissioning

26. We support in principle the need for a decommissioning regime that includes financial securities at the commercial permit stage. We encourage the government to set criteria for decommissioning that is commensurate to the risk profile of the development and specific to the nature of an offshore wind development (which may differ between fixed and floating deployments, for example).

27. To avoid deterring investment, the financial security should build up over time and there should not be a trailing liability for former owners. Once a transfer has been approved by the government, the decommissioning obligations should apply to the new owner, with the government undertaking a capability assessment and ensuring financial security lodgement as part of the transfer approval process.

Chapter 11: Compliance

28. We are broadly supportive of the approach to compliance outlined in the discussion document. We encourage the government to provide clear guidance to the market on compliance requirements and the enforcement regime. It could be helpful for the government to outline scenarios/examples that illustrate what would be non-compliant and what the resulting enforcement approach would be.

Chapter 12: Other Regulatory Matters

29. If the government chooses to include a public consultation process on the commercial permitting decision, this should be structured in such a way that:
    a. The areas open for public input are clearly defined and limited to only those areas that would not be open for consideration during the environmental consenting process (to avoid duplication of processes); and
    b. The timeframes for this consultation process are clearly defined and enforced, to minimise delays in decision making.

30. The approach to safety zones should be defined through a dedicated consultation process that includes the offshore wind, maritime and fishing industries, who are best placed to help determine what would be appropriate in a New Zealand context.

Measures for Transition to an Expanded and Highly Renewable Electricity System

Part 1: Growing renewable generation

31. International examples appear to demonstrate the value of revenue stabilising mechanisms to support large scale investment in renewable energy generation. As noted above in points 11-12 of our submission, we see value in the government implementing some form of revenue stabilisation regime for large scale renewable energy generation projects that are expected to drive national scale benefits.

32. Industry feedback we have received indicates that there is a clear market gap between market standard offtake agreements and the requirements for financing new generation projects. This results in insufficient new generation being built and risks consolidation of market power for new generation – which risks higher power prices for end users. There is a role for government in supporting offtake to bridge this gap, which could take the form of auctions for Contracts for Difference (CFD). A support mechanism of this nature would reduce financing costs for developers and encourage greater competition. It could also be used to incentivise investment in energy storage/firming.

33. Recognition that we are competing in a global marketplace for investment in renewable energy generation is critical. As noted above in points 4-5 of our submission, we are competing for scarce resources in constrained global supply chains. If our energy market is not attractive for investment relative to others, we risk not being able to secure the project investment needed to meet our energy transition ambitions. We need to ensure our market mechanisms are attractive relative to other markets, or we risk falling to the bottom of global queues.

34. We should also acknowledge the long history of government investment in large scale renewable energy generation capacity in Aotearoa New Zealand. As outlined in point 13 of our submission, most of the renewable generation in our energy system today was built at a time when the system was wholly managed by the government or state-owned enterprises. Given the step change in the scale of investment needed for new renewable generation, we think it is reasonable to expect that some form of government support will be needed to enable the necessary investment.

35. There are useful parallels that can be drawn from the experience of the ultrafast broadband rollout. Through this model, government investment and regulatory intervention enabled a step-change in network capability from scarcity to relative abundance for the majority of households and businesses. The opportunity is to consider models for intervention that would enable a similarly abundant future for renewable electricity. The October 2023 KPMG report "*30 Voices on 2030: The future of energy in Aotearoa*" highlights this opportunity, along with calling for a clear national energy strategy, more systems thinking to enable collaboration, and greater regulatory certainty. We encourage the government to consider the insights from this report in this consultation process.

36. We need to balance the desire to design an optimal regime that minimises the risk of providing support for investments that would have occurred without government intervention, against the need to move with some urgency to enable delivery of new large-scale generation projects. There is a risk of spending too much time trying to achieve

the 'perfect' regime when a 'sufficient' regime could achieve similar outcomes at much faster pace. We can learn from international experience to fast track the process and design effective and appropriate support mechanisms with some confidence.

37. We see value in improving the mechanisms by which large industrial users participate in demand response. It is important that their contribution to improving market flexibility is valued and that appropriate incentives are in place to recognise the commercial impact on their operations and encourage their voluntary participation.

Part 2: Competitive markets

38. We are concerned about the risk of increased market concentration and agree that this should be considered further and monitored closely by the Electricity Authority. Our concerns relate to both the risk to incentives to invest in new generation and the risk of lessening retail competition (both of which would result in worse outcomes for consumers). Greater visibility of the connection between generation cost and wholesale price may provide insight into market competitiveness and investment incentives.

39. We can see value in the government exploring potential structural changes (including the potential for an access pricing regime) as a signal to market participants that evidence of uncompetitive behaviour or market outcomes could be acted on with urgency if the need arises. This would give greater weight to the planned conduct measures.

Part 3: Networks for the future

40. We consider that the risk of investing too late is now greater than the risk of investing too early in electricity transmission, given rapidly escalating demand for electricity as we seek to meet decarbonisation imperatives (that were not present historically).

41. As noted in points 23-24 of our submission, we strongly support a shift to a more proactive and strategic approach to electricity network investments. This could include the establishment of an integrated system plan along with the identification and implementation of strategic Renewable Energy Zones (REZs). See points 49-50 for further comments on the REZ model.

42. Industry has also highlighted concerns about the high volume of open applications for Transpower in an industry with limited workforce and supply chain capacity. This reflects a system that currently encourages high volumes of small, opportunistic investments rather than strategic investment for the large-scale generation requirements of the future. Our electricity system needs to be designed to meet both short and long-term requirements.

43. We also note the publicly stated concerns from Transpower about the government's focus on achieving the 100% renewable electricity generation target in a market that is already highly renewable, which may be drawing focus away from other components of the electricity system that need priority attention, including investment in transmission and distribution networks. The law of diminishing returns needs to be considered and the trade-offs between reaching 100% renewable electricity generation and alternative initiatives that may achieve better decarbonisation outcomes.

44. With regard to distribution networks, we are particularly concerned about barriers to connection for new demand and first mover disadvantages. This challenge is exacerbated by differences in processes, policies, pricing and capabilities among different distribution companies. We see the first mover disadvantage problem as inhibiting industrial decarbonisation, and differences between distribution companies are creating geographical inequities.

45. We also acknowledge the challenges that distribution companies face in high growth regions, like the Waikato, which is forecast to experience high levels of residential and industrial growth. Distribution companies in high growth regions must respond to rapid change and growth that can be hard to accurately forecast. They therefore need sufficient flexibility in the system to enable them to respond and invest appropriately. This means that a regime that locks in expenditure for a 5 year period may be too inflexible, and models that rely on historic trends may be unreliable.

46. We support the suggestion that energy regulators should have explicit objectives relating to sustainability, decarbonisation, and climate resilience when considering investment decisions and frameworks.

Part 4: Responsive demand and smarter systems

47. We support actions to encourage the introduction of more flexibility services on the grid, to enable greater participation in demand side response activities. As noted in point 37, we encourage the government to consider improvements to the mechanisms by which large industrial users participate in demand response.

48. We are generally supportive of a standardised approach for smart devices and cyber security, based on international best practice.

Part 5: Whole-of-system considerations

49. In response to the question on what measures the government should prioritise to support the transition, we endorse the following priorities:
    a. Development of the energy strategy, to provide clear guidance for specific regulatory decisions that are currently being considered, along with regional-level decision-making and planning that is underway.
    b. Supporting investment in renewable energy generation at scale, including:
        i. Establishing appropriate regulatory frameworks to support the transition, including offshore wind frameworks.
        ii. Ensuring our transmission and distribution networks can support additional large-scale generation.
        iii. Introducing mechanisms that de-risk large-scale investments in generation (e.g. through revenue support mechanisms like CFDs).
        iv. Supporting the development of local supply chains to enable investment, recognising that we will be competing globally for the supply of inputs and skilled workforces.
    c. Introduction of strategic renewable energy zones (REZs) – identifying and prioritising key regions for renewable energy projects, to support both generation and decarbonisation at scale. The Waikato region is a leading opportunity for a REZ, with

significant renewable energy generation opportunities and high levels of industrial emissions needing support to decarbonise.

50. With regard to the REZ model, we see an opportunity for the government to establish a coordinated and strategic approach to regional planning for renewable generation, storage, transmission/distribution, and offtake for decarbonisation/electrification. This whole-of-system approach could incorporate:
    a. The Regional Energy Transition Accelerator (RETA)
    b. Consenting processes (involving local councils)
    c. Community engagement (including iwi/mana whenua)
    d. Financial measures to incentivise investment (e.g. CFDs)

51. With regard to the balancing of sustainability, reliability and affordability within the electricity regulatory/pricing framework, we consider that:
    a. Reliability and sustainability should be considered alongside efficiency. It is appropriate that the investment and actions necessary to ensure suitable levels of reliability is factored into electricity market regulation and pricing decisions. Similarly, actions and investment needed to support the achievement of our emissions targets as a country should also be factored into regulatory and pricing decisions.
    b. Affordability is more appropriately addressed outside of the direct regulatory/pricing framework for the electricity market and should instead be largely supported by redistribution mechanisms (such as direct subsidies for low-income households, for example).
    c. We do acknowledge, however, that there are issues of geographic inequities, which reflects the current structure of our energy market. If geographic inequities are a major concern for the government, more consideration of the structure of our energy market may be needed to address the underlying causes.

Gas Transition Plan & Interim Hydrogen Roadmap

General Comments

52. In the absence of other actions/interventions, our expectation is that fossil gas prices will continue to increase (due to falling supply and the ETS), which will increase supply risks. This creates significant challenges for industries that are currently reliant on fossil gas for use cases that lack viable energy alternatives.

53. While we acknowledge and support the need for a transition from fossil fuels, we also recognise the significant economic and social contribution of key industries that are currently reliant on fossil gas. We are concerned about uncertainty on fossil gas supply and pricing, which may result in commercial decisions to reduce industrial activity or relocate internationally, resulting in local job losses and economic contraction.

54. We are also concerned about the incentives for fossil gas infrastructure owners to continue investing in the maintenance of their assets, in the absence on certainty of future supply and pricing. This fossil gas infrastructure could be repurposed for green gases in the future.

55. We encourage the government to provide clarity on how fossil gas supplies will be managed in the short- to medium-term, to ensure limited supplies are prioritised towards

use cases that lack viable alternatives. We also note the critical role that natural gas currently plays in managing peak electricity demand. Certainty on gas supply for this purpose is needed until alternative peaking and firming solutions are operational.

56. We see a role for government in supporting the establishment of renewable gas industries, such as green hydrogen. Green hydrogen (and derivatives) can play a key role in both chemical feedstock and high temperature process heat applications. This provides an opportunity to both mitigate domestic emissions (for hard to abate industrial applications) and support the development of new industries with export potential.

57. The opportunity is to incentivise the generation of abundant renewable energy that creates optionality for new industry development, which may include green hydrogen (which requires significant electricity input). Given our natural advantages for renewable energy generation, Aotearoa New Zealand may be in a unique position to establish new high-value export industries that meet global demand for green gases and chemical feedstocks.

58. With regard to geothermal energy, we see opportunity for industry to consider relocation to a geothermal region to utilise direct process heat, acknowledging that relocation will not be a viable option for all industries. Geothermal energy may also be an attractive energy source for the production of hydrogen.