



## EVENT BRIEFING

### Bilateral meeting with the Minister of Climate Change

<b>Date:</b>	22 February 2024	<b>Priority:</b>	Medium
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2324-1763

Action sought		
	Action sought	Deadline
Hon Simeon Brown <b>Minister for Energy</b>	<b>Note</b> the contents of this briefing ahead of your meeting with the Minister of Climate Change on 26 February 2024.	26 February 2024

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Scott Russell	Acting Manager, Energy Use Policy	9(2)(a)		✓
Hannah Overton-Holmes	Senior Policy Advisor, Energy Use Policy	03 966 6632		

The following departments/agencies have been consulted
Ministry of Transport

**Minister's office to complete:**

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

**Comments**



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### Purpose

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This briefing provides advice and suggested talking points on energy and emissions reduction policy, ahead of your meeting with the Minister of Climate Change between 4:30pm and 5:00pm on Monday 26 February 2024.

### Recommendations

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The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the contents of this briefing ahead of your meeting with the Minister of Climate Change on 26 February 2024  
*Noted*
- b **Note** timeframes are tight for Ministerial decisions on the second emissions reduction plan (ERP2) - agency input is due at the end of March, ahead of public consultation in May – June  
*Noted*
- c **Note** we recommend consultation on ERP2 seeks feedback on:
  - a. the extent to which policies in Electrify NZ will enable private sector investment decisions and emissions reductions in energy supply and demand
  - b. what other barriers and market failures may prevent the private sector from reducing emissions*Noted*
- d **Note** we will provide you with a subsequent briefing seeking your agreement to the energy input for public consultation on ERP2 by 22 March 2024.  
*Noted*

9(2)(a)

Scott Russell  
**Acting Manager, Energy Use Policy**  
Building, Resources and Markets, MBIE

22 / 02 / 2024

Hon Simeon Brown  
**Minister for Energy**

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## Context

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1. The Minister of Climate Change is responsible for leading the Government's development of the second Emissions Reduction Plan (ERP2), which must be delivered by the end of 2024. To meet this timeline, consultation for ERP2 is scheduled for May – June 2024.
2. The majority of emissions reductions in the second emissions budget are expected to come from reducing emissions from energy use. On 21 December 2023 the Minister of Climate Change wrote to you requesting a meeting to:
  - a. discuss and agree the climate priorities within your portfolio
  - b. map out key deliverables and timeframes for those commitments
  - c. discuss how you can most effectively work together to deliver your shared objectives.
3. In this letter (attached as **Annex One**), the Minister outlined four key Government priorities to deliver the emissions reductions needed to meet New Zealand's climate targets, including:
  - a. lower energy emissions through doubling of New Zealand's renewable energy
  - b. lower transport emissions through delivering 10,000 new EV charging stations.
4. This meeting is an opportunity for you to:
  - a. inform the Minister of Climate Change of your priorities for the energy portfolio
  - b. set out your preferred approach to energy content in ERP2 consultation.
5. This briefing provides advice to support your discussion with the Minister of Climate Change. Suggested talking points are attached as **Annex Two**.
6. The bilateral meeting will cover both your Energy and Transport portfolios. This briefing should be read alongside advice from the Ministry of Transport and the accompanying briefing providing additional information on sustainable aviation fuels (2324-2110 refers).

## Proposed approach to the energy content in the ERP2 consultation

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7. The Climate Change Response Act 2002 requires ERP2 to show how New Zealand will meet the second emissions budget (2026-2030). The plan may also include policies and strategies for meeting future emissions budgets.
8. In discussions with officials, you have been clear that the main role for Government is to address barriers to enable private sector investment in decarbonisation. Consistent with this approach, we consider the ERP2 consultation provides an opportunity:
  - a. In relation to **electrification**, to:
    - i. set out the Government's overall approach to enable electrification
    - ii. ask if there are any other significant barriers that could stand in the way of building renewable electricity or firms making decisions to electrify
    - iii. seek evidence of the likely timing and scale of the private sector response, including how quickly new renewable generation can be built with Electrify NZ's enabling policies and when large energy users are likely to switch to electricity use.
  - b. In relation to energy use that is **hard-to-electrify**, to:
    - i. set out the actions the Government is taking
    - ii. seek further information on the biggest barriers to the private sector progressing decarbonisation options, and the scale of opportunities, where energy use is hard to electrify.

9. The rest of this section expands on how this approach will be useful to inform your decisions on any additional policies you may wish to include in the final ERP2.

**Electrification: Electrify NZ and a strong and stable Emissions Trading Scheme will be key pillars for ERP2**

10. Approximately 45 per cent of New Zealand’s energy and industrial process emissions are well suited to electrification – this includes emissions from light and medium transport and low and medium temperature heat. A further 15 per cent may also be suited to electrification – this includes mobile plant (such as off-road vehicles) and some heavy vehicles.
11. Electrification will therefore be the key way to meet New Zealand’s early emissions budgets, and Electrify NZ will be critical for enabling renewable energy supply to support New Zealand’s transition to net zero.
12. As set out in Table 1 below, the programme of work to deliver Electrify NZ spans multiple portfolios and involves a mix of policy work, legislation, Resource Management Act (RMA) national direction tools and a fast-track consenting regime to grow our renewable generation and support networks to electrify our economy [2324-1792 refers].

**Table 1: Electrify NZ workstreams**

<b>Workstream</b>	<b>Agencies/Crown Entities involved</b>
Fast track consenting regime	MfE; MBIE
Improvements to the resource management system (including new national direction)	MfE led, but is likely to include MBIE, DOC, Te Waihangā
Amendments to the National Policy Statement for Renewable Electricity Generation and National Policy Statement for Electricity Transmission	MfE; MBIE
Offshore wind permitting	MBIE;
Streamlining transmission and distribution infrastructure regulation	MBIE; Electricity Authority, Commerce Commission
Super charging EV infrastructure	MoT; EECA; MBIE; MfE

13. The key components of Electrify NZ are important supply-side enabling measures for supporting New Zealand’s energy transition, with a clear focus on ‘removing red tape’ via Resource Management reform. Actions in this work programme will establish a regulatory and business environment that facilitates greater private sector investment in renewable energy generation. The Supercharging EV Infrastructure commitments contain the government’s ambition for electrification of private transport.
14. The Emissions Trading Scheme (ETS) also plays a crucial role in incentivising the electrification of business and household energy use. Stable and high prices provide sufficient certainty to make low emissions technologies (including electric technologies) economically preferable for energy users. You have been clear that the ETS will be a core pillar of the Government’s policy approach, to encourage the uptake of lower emissions alternative fuels, products and services in the most cost-effective way. It is important to note that under the current market settings and in the short term, increased ETS prices will also increase electricity costs, potentially disincentivising some electrification decisions.

15. We understand there will be a separate meeting for Ministers to discuss the Government's priorities for the ETS. We will provide separate advice on the limitations of current ETS settings for reducing emissions in the energy sector ahead of this meeting.

### **ERP2 consultation provides an opportunity to understand the likely impact of the Government's electrification policies**

16. The timing and scale of the private sector's response to Electrify NZ – in terms of the investments in new generation and demand-side electrification measures that may result from a more enabling environment – is uncertain. ERP2 consultation provides an opportunity to better understand:
  - a. The extent to which new electricity generation and network infrastructure might be delivered with the Electrify NZ policies. This will inform assumptions in our modelling of the emissions abatement of increasing the supply of renewables.
  - b. Whether there are other significant supply side barriers to the private sector delivering the required increase in renewable electricity generation and network infrastructure (which are not already being addressed through Electrify NZ or ETS policy). These could include economic challenges for entry or expansion, for certain types of generation plant (such as thermal peakers or long-duration energy storage).
  - c. The likely demand side response to Electrify NZ and the ETS price. For example, the extent to which greater certainty of secure and affordable electricity supply will prompt large energy users to decarbonise and what further barriers remain, and the rate of uptake of localised batteries and smart technologies to reduce household demand at peak periods. This will inform both our modelling assumptions and advice on whether any further actions should be included in ERP2, for example providing clear information on electrification opportunities and whole of life costs to support electrification decisions.

### **For energy use that is hard-to-electrify, we recommend you use ERP2 consultation to seek feedback on the biggest barriers and opportunities for decarbonisation**

17. Hard-to-electrify activities account for 17 per cent of energy and industry emissions, or seven per cent of total gross emissions. Activities where electrification is less suited are concentrated in industry and heavy transport. There are significant commercial challenges to reducing emissions from activities that are less suited to electrification. While reductions from these activities will not be expected till later emissions budget, early government choices now could help bring down the total cost and capture benefits of the transition.
18. ERP2 consultation provides an opportunity to set out what the government is already doing in relation to hard-to-electrify activities. For example, ERP2 could highlight our work with the Ministry for the Environment to understand what changes, if any, would be needed to enable Carbon Capture, Utilisation and Storage (CCUS). CCUS could both support energy security of supply objectives and help reduce gas sector emissions.
19. ERP2 consultation also provides an opportunity to better understand any additional significant barriers to the private sector progressing decarbonisation options where energy use is hard to electrify. This could include seeking feedback on the Government's role in:
  - a. addressing remaining market failures e.g., information failures or challenges faced for some sorts of generation plant (other than pricing the emission externality) and other additional barriers
  - b. promote enabling regulatory and market settings for new solutions like hydrogen, CCUS, biomass, and green fuels

- c. supporting long-term cost reductions in solutions to hard to abate emissions, including through RD&D and enabling infrastructure.

## Suggested talking points

### *Energy portfolio priorities*

- *My priorities for the energy portfolio are to ensure we keep the lights on, maintain affordability, and create the right market conditions so the private sector has confidence to invest.*
- *Electrify NZ is one of my key priorities and has its own timeline.*

### *Energy approach to consultation*

- *I intend to use ERP2 consultation to seek feedback on the extent to which enabling policies in Electrify NZ and current ETS settings will have an impact on private sector investment decisions and emissions reductions, and whether there are other supply side barriers preventing this investment.*

### *Role of the Emissions Trading Scheme*

- *The ETS is a key tool and can incentivise energy users to make investment decisions that directly reduce their emissions. However, officials advise me that under the current design, NZ ETS prices are likely to fall by 2030 at the latest, primarily due to the increasing supply of low-cost New Zealand Units allocated for removals from exotic afforestation.*
- *I look forward to discussing this more at the upcoming ETS meeting.*

### *Modelling energy sector emissions abatement*

- *Abatement estimates will not be ready for consultation, but we can use consultation to test assumptions that will inform modelling for the final plan.*

## **We understand the Minister of Climate Change would like to discuss hydrogen, sustainable aviation fuels and green shipping fuels**

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20. We understand the Minister of Climate Change has expressed specific interest in hydrogen, sustainable aviation fuels (SAF) and green shipping fuels. Reliable and affordable access to these products will play a key role in decarbonising hard-to-abate sectors and keep New Zealand's export and tourism sectors competitive.
21. The policy levers to enable these fuels sit across the energy and transport portfolios and are mutually supportive. Access to substantial amounts of new and cheap renewable electricity or sustainable feedstocks is necessary to produce these fuels domestically. This new supply will be supported through the Electrify NZ programme and RMA reform.
22. You have signalled you are open to market-enabling work (such as regulatory and consenting measures) on these issues. In recent advice on hard-to-electrify activities and hydrogen, we indicated that the Government has a strategic choice about whether to pursue any additional measures (such as those implemented overseas) to address the commercial challenges with establishing at-scale markets for these fuels [2324-1067 and 2324-1731 refer]. As you are aware, measures outside regulatory enablement would likely require significant investment, the case for which would need to be carefully considered within the context of future budgets and in light of whether private investment should more appropriately play this role.
23. You may wish to indicate to the Minister of Climate Change that measures beyond enablement would be difficult to consider in the context of the ERP2 process, but you are interested in discussing how ERP2 should signal the Government's interest in adoption of

hydrogen, SAF and green shipping fuels. As above, the ERP2 consultation also provides an opportunity to better understand barriers to the adoption of new fuels like hydrogen.

24. We note the Minister has been requesting a significant amount of information from officials on these topics. We also understand the Minister wishes to discuss whether hydrogen matters should be jointly governed through both the Energy and Climate Change portfolios.

### Suggested talking points

#### *ERP2 Consultation*

- *I expect to receive further advice from officials in March on the specific content for ERP2 consultation.*
- *This will include advice on the role Government can play a role in addressing the market failures that can hinder the effectiveness of emissions pricing and support clean energy infrastructure development.*

#### *Ministerial governance for hydrogen*

- *Policy levers to enable this sit across the energy and transport portfolios, and I can continue to forward you relevant briefings.*

### Next Steps

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25. We will provide you with a briefing by 22 March 2024 seeking agreement to energy input for ERP2 consultation and will work with your office to support you for the upcoming milestones set out in table 2.

**Table 2: Upcoming ERP2 milestones**

<b>Meeting/milestone</b>	<b>Expected timing (TBC)</b>
Climate Priorities Ministerial Group	March
Ministerial meeting – ETS	March
Approve energy content for ERP2 consultation	Late March
Climate Priorities Ministerial Group	Early April
Ministerial consultation on ERP2 Cabinet paper	April
Cabinet consideration and ERP2 consultation released	May

### Annexes

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Annex One: Letter from the Minister of Climate Change

Annex Two: Suggested talking points



**Annex One: Letter from the Minister of Climate Change**

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# Hon Simon Watts

Minister of Climate Change  
Minister of Revenue



21 December 2023

Hon Simeon Brown  
Minister for Energy, Minister of Transport  
By email: [S.Brown@ministers.govt.nz](mailto:S.Brown@ministers.govt.nz)

Dear Simeon,

## **Delivering our Government's climate priorities – Energy and Transport portfolio bilateral**

As you are aware, the Government sees climate change as an economic priority and is absolutely committed to meeting New Zealand's climate targets.

In light of this commitment our Government has a number of key priorities to deliver the emissions reductions needed to meet the climate targets, including:

- Lower energy emissions through doubling of New Zealand's renewable energy,
- Lower transport emissions through delivering 10,000 new EV charging stations,
- Lower agricultural emissions; and
- Growing New Zealand's forestry industry to help meet our climate commitments.

We need to move quickly to action the delivery of these commitments, and 2024 will be a critical year for the Government to design and publish our climate mitigation implementation plan. Your support will be critical to transitioning the Energy and Transport sectors to a low carbon economy.

Given the cross-portfolio nature of the Government's climate work programme, I wish to meet with you early in 2024 to:

1. discuss and agree the climate priorities within your portfolio;
2. map out key deliverables and timeframes for those commitments,
3. discuss how we can most effectively work together to deliver our shared objectives.

My office will be in touch with your office shortly to find a time for us to meet in January if possible.

I look forward to working closely with you this term.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Watts', written over a light blue horizontal line.

Hon Simon Watts  
**Minister of Climate Change**

CC: Carolyn Tremain, Chief Executive of the Ministry of Business, Innovation and Employment

Audrey Sonerson, Secretary for Transport

## Annex Two: Suggested talking points

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### *Energy portfolio priorities*

- My priorities for energy portfolio are to ensure we keep the lights on, maintain affordability, and create the right market conditions so the private sector has confidence to invest.
- Electrify NZ is one of my key priorities and has its own timeline.

### *Energy approach to consultation*

- I intend to use ERP2 consultation to seek feedback on the extent to which enabling policies in Electrify NZ and current ETS settings will have an impact on private sector investment decisions and emissions reductions, and whether there are other supply side barriers preventing this investment.

### *Role of the Emissions Trading Scheme*

- The ETS is a key tool and can incentivise energy users to make investment decisions that directly reduce their emissions. However, officials advise me that under the current design, NZ ETS prices are likely to fall by 2030 at the latest, primarily due to the increasing supply of low-cost New Zealand Units allocated for removals from exotic afforestation.
- I look forward to discussing this more at the upcoming ETS meeting.

### *Modelling energy sector emissions abatement*

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### *ERP2 Consultation*

- I expect to receive further advice from officials in March on the specific content for ERP2 consultation.
- This will include advice on the role Government can play a role in addressing the market failures that can hinder the effectiveness of emissions pricing and support clean energy infrastructure development.

### *Ministerial governance for hydrogen*

- Policy levers to enable this sit across the energy and transport portfolios, and I can continue to forward you relevant briefings.