



BRIEFING

Emissions Reduction Plan 2 – Energy Content for Consultation

Date:	22 March 2024	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2324-2313

Action sought		
	Action sought	Deadline
Hon Simeon Brown Minister for Energy	Provide feedback on the proposed energy content for ERP2 consultation Note the annexed talking points for the Climate Priorities Ministerial Group meeting on 25 March.	25 March 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Scott Russell	Acting Manager, Energy Use Policy	9(2)(a)	✓
Lorenz Maggaard-Romano	Policy Advisor, Energy Use Policy		

The following departments/agencies have been consulted
Ministry of Transport (Briefing and proposed consultation content) Energy Efficiency and Conservation Authority, Ministry for Primary Industries (proposed consultation content only)

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 Withdrawn |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



BRIEFING

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Date:	22 March 2024	Priority:	Medium
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Purpose

This briefing seeks your feedback on the proposed energy content for inclusion in the second Emissions Reduction Plan (ERP2) public consultation document.

Recommended action

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

- a **Note** ERP2 consultation is planned for June 2024, and agencies must submit draft content for compilation into a cross-government discussion document for Cabinet approval to consult
Noted
- b **Note** the draft energy content:
 - a. canvasses existing work programmes including Electrify NZ, other supply side measures, the role of ETS, and energy efficiency
 - b. seeks feedback on barriers, market failures or additional measures that should be considered to enable the private sector to invest in electrification
 - c. discusses and seeks feedback on additional barriers and opportunities for addressing emissions that are hard to electrify*Noted*
- c **Agree**, subject to your feedback being incorporated and further drafting refinements, that MBIE will submit the draft energy content (attached as Annex One) by 5 April 2024 for inclusion in the draft ERP2 discussion document
Agree / Disagree
- d **Discuss** the draft energy content at the officials meeting on 25 March 2024
Agree / Disagree
- e **Note** the attached talking points (Annex Two) to support your attendance at the first Climate Priorities Ministerial Group scheduled for 25 March 2024
Noted

- f **Note** officials will continue to refine the draft energy content and you will have an opportunity to provide further feedback on this content and the wider discussion document during Ministerial consultation in April/May 2024.

Noted

9(2)(a)

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

22 / 03 / 2024

Hon Simeon Brown
Minister for Energy

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Context

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, ERP2 consultation is scheduled for June 2024 [2324-1763 refers].
2. In discussions with officials, you have indicated that you see the main role for Government is to provide the policy and regulatory settings that enable private sector investment in emissions reduction. We have developed proposed content for consultation, attached as **Annex One**, that reflects this approach.
3. Agencies must submit draft content for compilation into a cross-government discussion document by 5 April 2024. This briefing provides an overview of the proposed energy content. We are seeking your feedback on the content prior to this. You will have a further opportunity to provide further feedback on this content and the wider discussion document during Ministerial consultation in April/May 2024.
4. This briefing should be read alongside draft content from the Ministry of Transport (MoT).

Overview of the proposed ERP2 energy consultation content

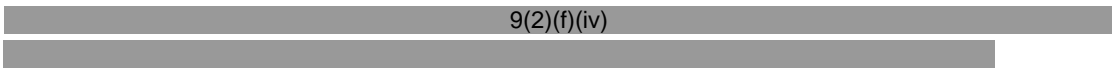
5. Proposed energy content is attached as **Annex One**.
6. We are proposing that the consultation document seeks feedback on barriers, market failures or additional measures that should be considered to enable the private sector to efficiently reduce emissions and support New Zealand in meeting the second emissions budget and the 2050 net-zero target at least-cost. The role of the Emissions Trading Scheme (ETS) is critical given energy emissions are largely covered by the ETS, however ETS policy will be canvassed in other sections of the document.
7. The focus of the draft energy content is on:

<i>Enabling Electrification</i>	<ol style="list-style-type: none"> a. Balancing the energy trilemma b. Removing regulatory barriers and creating an enabling environment for renewable energy generation and emission reduction measures c. The Electrify NZ work programme d. Energy efficiency measures
<i>Progressing options where energy use is hard to electrify</i>	<ol style="list-style-type: none"> e. The role of natural gas (including CCUS) f. Bioenergy g. Hydrogen h. Sustainable aviation and shipping fuels
<i>Adaptation and impacts</i>	<ol style="list-style-type: none"> i. Addressing climate change risks to the transition of the energy sector j. Economic, distributional, and Treaty of Waitangi implications

8. We may need to further amend the draft content to:
 - a. address any significant or unexpected feedback through ERP2 early engagement with targeted stakeholders

- b. respond to further Ministerial direction on the role and impact of the ETS on energy, as set out in the next section
- c. ensure consistency with other sections of the draft discussion document, in particular Transport content, and the consultation questions
- d. complete placeholder text (highlighted in yellow) in relation to how the Government has considered the Climate Change Commission's advice for the energy sector.

Energy and the ETS

- 9. On Wednesday 6 March you met with other Ministers responsible for the ETS. We understand that at the meeting you indicated that you wish to retain current ETS architecture and settings. These settings will deliver a 'net' strategy by enabling least cost abatement, primarily by incentivising removals (afforestation).
- 10. Under current settings prices are expected to fall from today's price of around \$56 to around \$50 by 2030 at the latest, assuming there remains an unconstrained and increasing supply of low-cost New Zealand Units (NZUs) allocated for removals from exotic afforestation.¹ We note this should support a least cost delivery of New Zealand's 2050 target, but that it will have implications for the incentives to invest in energy emission reductions on both the supply and demand sides.
- 11.  9(2)(f)(iv)
- 12. The draft energy content currently describes how the ETS can incentivise emissions abatement. We intend to use ERP2 consultation as an opportunity to better understand how a net strategy is likely to affect decision making in the supply and demand sides of the energy sector. We will use this information to better understand the implications for energy emissions and provide you with further advice on possible additional enabling policies for inclusion in the final ERP2.
- 13. We will continue to refine the ETS content to ensure it is consistent with the wider draft discussion document.

Consultation will inform further analysis for the final ERP2 document

- 14. For your portfolio, consulting on the energy content helps to:
 - a. inform and select assumptions for improved modelling of energy emissions abatement
 - b. assess the impact of decisions and identify options to mitigate risks
- 15. In particular, the proposed consultation document asks questions of stakeholders on:
 - a. the impact of consenting improvements on deployment of renewables
 - b. barriers to investment in electricity generation and infrastructure
 - c. security of supply and affordability
- 16. The Climate Change Commission's advice includes recommendations specific to the Energy portfolio, relating to the electricity sector (recommendation 19), the industrial sector (recommendation 20) and natural gas connections (recommendation 15, which also relates

¹ The estimated emissions price range of where exotic afforestation is cost-effective is around \$25-\$75/t (MPI central estimate, \$50) – this is cheaper than many emissions reduction options.

to the Building and Construction portfolio). We will incorporate feedback from consultation and provide further advice on these, noting any significant components of the advice that sit outside the Energy portfolio.

Climate Priorities Ministerial Group

17. The first Climate Priorities Ministerial Group (CPMG) meeting is scheduled for Monday 25 March 2024. The meeting agenda and papers have been sent to your office.
18. The meeting will include discussion on the development of ERP2. Suggested talking points are attached as **Annex Two**. These talking points align with those you will receive from MoT.

Risks and mitigations

19. We have drafted the proposed energy content to mitigate potential risks, including consultation risks, litigation and Treaty-related risks.

Consultation risks

20. MBIE has previously consulted on many of the topics covered in the consultation document. To mitigate the risk that stakeholders feel they are being repeatedly asked about the same issues, we need to clearly acknowledge what we have previously heard from consultations and enable participants to refer to previous submissions. By showing we are actively considering previous feedback, we aim to mitigate the risk of consultation fatigue.
21. Government has a responsibility to ensure consultation is meaningful, by showing it is keeping an open mind and providing sufficient detail for consultees to understand the likely impacts of a proposal. The proposed approach to energy content is high-level and focused on the package of measures. Specific policy proposals referred to in the consultation (e.g. Resource Management Act consenting, offshore renewable energy permitting regime) have their own policy and consultation processes which provide the necessary detail.

Treaty and Litigation Risks

22. There are potential treaty and litigation risks arising from ERP2 development. We can expect growing legal scrutiny around climate decision-making. We advised you previously on risks related to policy decisions that affect emission budgets [2324-1197 refers].
23. The risk of successful legal challenges can be mitigated through good process and clear justification for climate-related decisions across all Ministerial portfolios. The consultation approach, including the questions posed help to mitigate these risks by setting out Government's action and seeking feedback on their overall emissions impact.
24. We will continue to advise you and work with other agencies to consider potential impacts on Māori while developing further advice on ERP2. We are also coordinating with the Ministry for the Environment (MfE) on early engagement with iwi/Māori.
25. The Cabinet paper seeking approval to consult on the ERP2 discussion document will further address Treaty and litigation risks and mitigations.

Next steps

26. Agencies must submit final draft consultation to MfE by 5 April 2024. Please indicate whether you require any changes to be made prior to this deadline.
27. We will continue to:
 - a. work with MoT to ensure content alignment across the energy and transport chapters

- b. support MfE on relevant ERP2 early engagement, including meetings with energy stakeholders and online hui with Treaty partners
- c. use the Energy Portfolio Weekly Report to update you on early engagement and Cabinet timeframes for approving ERP2 consultation material.

Annexes

Annex One: Draft ERP2 Energy Consultation Content

Annex Two: CPMG Talking Points

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Annex Two: CPMG Talking Points

9(2)(f)(iv)

Agenda Item 3: Domestic mitigation (ERP2)

[Background: In April, Ministers will consider draft policies and approaches from all relevant portfolios for inclusion in the ERP2 consultation document. The ERP2 consultation document will then be considered by Cabinet in May prior to public release.]

- The energy chapter will set out the Government's role in the energy sector, in particular its role in providing a regulatory environment to better enable private capital to efficiently invest in decarbonisation.
- Electrification will be a key way to meet New Zealand's early emissions budgets. I propose the energy chapter will seek feedback on:
 - the extent to which policies in Electrify NZ will enable private sector investment decisions and emissions reductions in energy supply and demand
 - what other barriers and market failures may prevent the private sector from electrifying.
- For some sectors and activities, electrification is currently not possible or economically viable, and other decarbonisation options for these sectors and activities (e.g. hydrogen or carbon capture and storage) are at an early stage of development. I propose we use the ERP2 consultation to better understand what other opportunities exist to decarbonise these activities and how the Government can enable this.