

2nd November 2023

Ministry of Business, Innovation & Employment

Via email to electricitymarkets@mbie.govt.nz

Submission on “Measures for transition to an expanded and highly renewable electricity system”

Background

1. OMV New Zealand (OMV) is a major energy provider for the country, finding and developing natural gas deposits in Taranaki. Our business helps to meet the energy demands of New Zealanders in economically, environmentally, and socially responsible ways.
2. OMV welcomes the opportunity to provide feedback on the discussion document (the Paper) titled **Measures for transition to an expanded and highly renewable electricity system** from the Ministry of Business, Innovation & Employment (MBIE).
3. We provide feedback here on aspects of the paper which relate to gas production, which is our core business in Aotearoa New Zealand. However, our interest in the important workstreams discussed in the paper go beyond the role of gas. In 2022, OMV launched a new global strategy which will see our oil and gas business decline over time to be replaced with low carbon energy sources. By 2050 OMV intends to be a net zero company across all of Scope 1, 2 and 3 emissions. OMV will gradually reduce fossil fuel production by 2030, with a stronger decline in the following decades. By 2050 we will exit fossil fuel production for energy use. Accordingly, the growth of renewable energy in markets around the world are of interest to us as OMV expands into geothermal energy, hydrogen, carbon capture and transport electrification.
4. OMV recognises and supports the objectives of the Climate Change Response (Zero Carbon) Amendment Act 2019 (Zero Carbon Act) and its goal of achieving net zero emissions by 2050. OMV supports the Emissions Trading Scheme (ETS) as the primary mechanism for reducing emissions in NZ in order to achieve our net zero goal. OMV has shared its views on New Zealand’s energy transition through previous submissions such as on the Climate Change Commission’s draft advice to government (March 2021), the draft of the first Emissions Reduction Plan (November 2021), and consultation with the Electricity Authority on the thermal transition (July 2023), among others. In the context of the required multi-decade, economy wide transformation to achieve Net Zero by 2050, our submissions have highlighted:

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- a. the critical importance of regulatory stability in enabling (or at least not hindering) the significant investment needed in New Zealand's energy system;
 - b. the need to make sure policy interventions are considered only when really needed to deliver emissions reductions that are additive over what would be achieved by the ETS alone, and such policy interventions should be justified by robust cost-benefit analysis;
 - c. the importance of ensuring that New Zealand's emissions are not simply exported to overseas economies; and
 - d. the need to ensure that decarbonisation options are not unnecessarily or prematurely closed off, but instead the need to maintain optionality.
5. OMV has provided a fulsome response to the Gas Transition Plan Issues Paper (GTP), an accompanying document to the Paper that will also inform the development of Aotearoa New Zealand's Energy Strategy. We refer MBIE to our response to the GTP, particularly in regard to Question 11 in the GTP Paper: *Are there any issues or potential issues relating to gas supply availability during electricity system transition that you would like to comment on?* Our response to the GTP outlines the complexity of the current and future gas market in New Zealand, including the critical symbiotic relationship between production of gas for electricity generation, the production of gas for petrochemicals, and the essential underpinning role played by Methanex in the system.
6. Our response to the GTP also addresses factors that may be creating regulatory and market uncertainties for investment, such as future gas supply and flexibility to support dispatchable fossil gas-fired generation in a firming role, and the role of gas storage.
7. We include a table below which contains brief responses to questions in Part One and Part Five of the Paper.

Thank you for the opportunity to provide feedback on the paper.

Yours faithfully

Summary Responses to the Questions posed in the Paper

PART 1: GROWING RENEWABLE GENERATION

1	<p>Are any extra measures needed to support new renewable generation during the transition? Please keep in mind existing investment incentives through the energy-only market and the ETS, and also available risk management products. Any new measures should add to (and not undermine or distort) investment that could occur without the measures.</p>	No comment.
2	<p>If you think extra measures are needed to support renewable generation, which ones should the government prioritise developing and where and when should they be used? What are the issues and risks that should be considered in relation to such measures?</p>	n/a.
3	<p>If you don't think further measures are needed now to support new renewable generation, are there any situations which might change your mind? When and why might this be?</p>	<p>There is much that needs to go smoothly to achieve the high levels of renewable generation that are modelled to be needed. Issues with social licence for massive renewable construction may emerge, even given a permissive regulatory regime. As noted by the IEA's 2023 World Energy Outlook, clean energy projects are facing headwinds in some markets from cost inflation, supply chain bottlenecks and higher borrowing costs in an increasingly competitive transition. Our reliance on an international supply chain from an exposed position of a small distant market may also prove challenging. A disorderly exit of the gas sector due to investment decisions by producers, customers, or due to government policy, could also disturb the delicate balance required to successfully navigate the transition. Waypoints should be built into the Energy Strategy that would allow re-evaluation of measures in the face of changing build rates and unexpected tipping points.</p>

4	Do you think measures could be needed to support new firming/dispatchable capacity (resources reliably available when called on to generate)? If yes, which kind of measures? What needs do you think those measures could meet and why?	Yes. Previous government policy on 100% renewable electricity by 2030 may have influenced investment decisions on fossil fuel dispatchable resources and reduced security of supply. A clear government signal on the need for fossil fuel peakers as part of the electricity sector through the transition is needed.
5	Are any measures needed to support storage (such as battery energy storage systems or BESS) during the transition? If yes, what types of measures do you think should be considered and why?	Yes. New Zealand is short of energy storage, and all options should be explored. Additional gas storage is an attractive option that would provide needed flexibility in the energy system. Previous government policy on 100% renewable electricity by 2030 may have influenced investment decisions on gas storage.
6	If you answered yes to question 4 or 5 above, should the support be limited to renewable generation and renewable storage technologies only or made available across a range of other technologies? Keep in mind that fossil fuels are generally the cheapest option for firming, though this may change over time as renewable options (particularly batteries) become more efficient and affordable	No.
7	If you answered yes to question 6 above, what are the issues and risks with this approach? How could these risks and issues be addressed?	n/a.
8	Are any measure(s) needed to support existing or new fossil gas fired peaking generation, so as to help keep consumer prices affordable and support new renewable investment?	Yes. It is clear that new gas peakers are currently needed, and the existing ageing fleet needs to continue to run. But no new peakers are being built. As discussed above, previous government policy may have inhibited any new builds.
9	If you answered yes to question 8 above, what measures should be considered and why? What are the possible risks and issues with these measures?	A clear government signal on the need for fossil fuel peakers as a long-term part of the electricity sector through the transition is needed. Detrimental policy aimed at eliminating use of fossil fuels for electricity generation by 2030 should be removed.
10	If you answered yes to question 8	A stable and well-functioning emissions trading scheme is an important part of

	<p>above, what rules would be needed so that fossil gas generation remains in the electricity market only as long as needed for the transition, as part of phase down of fossil gas?</p>	<p>ensuring these objectives are realised. OMV supports the ETS as the primary mechanism for reducing emissions in New Zealand in order to achieve our net zero goal and we question the need for further rules. We disagree with the positioning of Question 10. We should transition to a low emissions economy without overly prescriptive pathway for particular fuels. We disagree with any idea that <u>gas</u> should somehow be “phased down”, it is <u>emissions</u> that must be phased down and if gas can help keep electricity secure and affordable then this will support the electrification of industry and transport to achieve emissions reduction in those sectors.</p>
11	<p>Are there any issues or potential issues relating to gas supply availability during electricity system transition that you would like to comment on?</p>	<p>Yes. We refer to our submission on the Gas Transition Plan. The complex symbiotic relationship between the supply of gas for electricity generation and the underpinning demand of Methanex for petrochemical feedstock must be kept front of mind. Significant regulatory uncertainty exists that will impact gas supply, such as government policy on decommissioning and approvals for asset divestments.</p>
12	<p>Do you agree that specific measures could be needed to support the managed phasedown of existing fossil fuel plants, for security of supply during the transition?</p>	<p>As per our comment on Question 10, we disagree with any idea that gas should somehow be “phased down”.</p>
13	<p>If you answered yes to question 12 above, what measures do you think could be appropriate and why? What conditions do think you should be placed on plant operation? For example, do you have any views on whether there should be a minimum notice period for reductions in plant capacity, and/or for placing older fossil fuel plant in a strategic reserve?</p>	<p>While noting the negative findings by several recent studies as quoted in the Paper, we agree with the paper’s statement that it is worthwhile further considering the issue of a strategic reserve or a reserves/capacity market for gas. We refer to our submission on the Gas Transition Plan.</p>
14	<p>If you answered yes to question 12 above, what are the issues and risks with these measures and how do you think these could be addressed?</p>	<p>We refer to our submission on the Gas Transition Plan.</p>
15	<p>What types of commercial</p>	<p>In 2021 Methanex and Genesis Energy</p>

	arrangements for demand response are you aware of that are working well to support industrial demand response?	agreed a gas swap arrangement to support electricity generation across the winters of 2022 and 2023. Enerlytica analyse the deal as being opportunistic and likely only considered by Methanex as it coincided with its planned Motunui turnarounds. A similar opportunity to direct gas towards thermal generators occurred in Winter 2023 due to Methanex's maintenance activities.
16	What new measures could be developed to encourage large industrial users, distributors and/or retailers to support large-scale flexibility?	See our comments in question 13 on a reserves/capacity market. We note the useful large-scale flexibility provided by gas storage facilities and suggest that measures to encourage additional gas storage should be considered as part of this topic.
17	Do you have any views on additional mechanisms that could be developed to provide more information and certainty to industry participants?	n/a.

PART 5: WHOLE-OF-SYSTEM CONSIDERATIONS

58	<p>Are there gaps in terms of information co-ordination or direction for decision-making as we transition towards an expanded and more highly renewable electricity system and meeting our emissions goals? Please provide examples of what you'd like to see in this area.</p>	<p>We note that significant work has already been done around information disclosure and that work stream is continuing. We have submitted numerous papers to GIC on this issue. We are sceptical of the need for radical new initiatives in this area. We note that more reporting of data (beyond that now being disclosed around outages) would not have materially alleviated either the Pohokura pipeline outage in 2018 and or the deterioration of Pohokura performance in 2020.</p> <p>We do see that increasing the understanding of the gas system, including risks, would help increase the robustness of the overall system by allowing participants to manage their positions more effectively. We see the potential to build this over time via the GIC portal starting with education about the NZ gas system and generic upstream risks.</p>
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