

2nd November 2023

Ministry of Business, Innovation & Employment

Via email to hydrogen@mbie.govt.nz

OMV Exploration &
Production

Submission on “Interim Hydrogen Roadmap”

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 Consultation Paper titled **Interim Hydrogen Roadmap** (the Paper) from the Ministry of Business, Innovation & Employment (MBIE).
3. We have read and support the submission on the Paper made by Energy Resources Aotearoa. We have also made a submission on the Gas Transition Plan Issues Paper, a companion document to the Paper which also discusses the role of hydrogen in New Zealand. This letter should be read in conjunction with those two submissions.

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Responding to climate change is driving a transition in energy

4. The energy sector is at the heart of the challenge to reduce Greenhouse Gas emission levels. OMV sees that natural gas has an important role in acting as a lower carbon bridge, while the world switches from oil and coal to renewables.
5. 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.
6. 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 New Zealand 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:

- 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.

Hydrogen will be part of the transition

6. We have provided comments on hydrogen as part of feedback on the Gas Transition Plan Issues Paper. OMV maintains a keen corporate interest in the role that hydrogen may play in the global future energy mix. OMV, together with Kommunalkredit AG, is investing EUR 25 million in a 10MW green electrolysis plant in order to be able to produce up to 1,500 tons of green hydrogen annually, starting in 2023.
7. In our refinery in Schwechat in Austria, we have been using so-called grey hydrogen (produced from hydrocarbons such as natural gas) for years to produce sulphur-free diesel and gasoline. We intend to use green hydrogen to hydrogenate bio-based and fossil fuels in order to substitute grey hydrogen in the refinery. We deliberately opted for green hydrogen production on an industrial scale as we see the potential it holds – for lower-carbon road use as well as for reducing CO₂ emissions in industrial operations. We believe that substitution of green hydrogen within existing petrochemical processes is a key application in New Zealand.
8. We see a high potential of hydrogen especially in freight transport and public transport, where electrification is often difficult or impossible. Therefore, the contribution that hydrogen can make in the sector that is difficult to electrify is enormous. OMV and Österreichische Post AG, Austria's leading provider of transport and logistics services, have signed a Memorandum of Understanding for the use of green hydrogen in heavy goods transport. We note with interest the similar steps towards use of hydrogen in heavy transport in NZ.
9. We wish to make some further summary points here:

- a. As discussed above, we believe that the focus of the government should be on achieving emissions reduction with the greatest efficiency and lowest cost, rather than choosing particular sectors or fuels to drive emissions cuts. Such policy choices are likely to deliver suboptimal outcomes and increases the risk of unintended consequences.
- b. Hydrogen has many advantages as noted in the paper. We are investing internationally in green hydrogen, but we note that the development of “blue” hydrogen derived from gas with carbon capture and storage may be an important part of the energy transition. We suggest that blue hydrogen may be a useful incremental and cost-effective emissions reduction, allowing industry to gradually transition without shocks. Exploration of the potential role of blue hydrogen as part of the energy mix may discover a useful decarbonised indigenous fuel source. Displacing hydrogen derived from gas that is used in existing industrial processes could bring significant and rapid emission reductions.
- c. For green hydrogen to make a significant contribution to decarbonization developments will require large quantities of cheap electricity. Our experience in gas development in New Zealand leads us to consider the analogies with last century’s hydrocarbon economy. The current exploration of large offshore wind developments in Taranaki to provide large quantities of electricity will need large-scale, long-term customers if they are to proceed. The requirement for a big customer will likely underpin a hydrogen economy in New Zealand, as it has underpinned the last century’s hydrocarbon economy. This may still be Methanex if it can transition to hydrogen. Alternatively, it may be a new hydrogen export facility or a new power-to-X export facility. In either case, the likely role of export markets will be key, just as it is for gas production. Domestic electricity consumers will benefit from the symbiotic effects of this large pairing, just as the New Zealand electricity sector has benefitted symbiotically from methanol export in terms of low electricity prices and security of supply. Other sectors in New Zealand may be able to decarbonize faster with similar symbiotic effects.

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