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## **Submission: Proposed regulatory regime for Carbon Capture, Utilisation, and Storage (CCUS)**

Thank you for the opportunity to submit on the *Proposed regulatory regime for Carbon Capture, Utilisation, and Storage*.

### **About us**

GasNZ is the industry voice for gas. We want New Zealanders to enjoy the benefits of gas today and in the future. We advocate for safe and efficient use of existing gas resources, while supporting the transition to greater amounts of renewable, low-emission gases for homes, business, and industry.

Our members have interests in natural gas, liquefied petroleum gas (LPG), and renewable gases including biomethane, renewable liquid gas (formerly known as “renewable LPG”), rDME, and hydrogen. From all parts of the gas supply chain, our members are a broad range of gas businesses committed to a sustainable, net-zero emissions New Zealand, where Kiwi households and businesses can enjoy gas as a reliable, affordable, renewable energy source.

### **Our submission**

GasNZ strongly supports the rapid creation of a fair regulatory regime for CCUS in New Zealand to enable its deployment.

### **Enabling CCUS on an equal footing**

1. The deployment of CCUS could materially reduce New Zealand’s greenhouse gas emissions and increase security of gas supply. Implementation of CCUS has been

identified by both the Intergovernmental Panel on Climate Change and the International Energy Agency as critical to reaching net zero emissions by 2050.<sup>1</sup>

2. Many applications of CCUS involve technology that is well-proven, some of which are already used in New Zealand, or used by New Zealand operators in their overseas operations. There is keen interest within the gas sector to implement CCUS in New Zealand.
3. However, investment in CCUS in the gas sector in New Zealand has been inhibited by the absence of a clear CCUS regulatory framework, and resulting investment uncertainties. In particular:
  - emissions reduction via CCUS needs to be integrated into New Zealand's carbon accounting framework through the Emissions Trading Scheme, and
  - a framework for liability needs to be established.

Rapid removal of those barriers and introducing certainty will facilitate least-cost emissions reduction for New Zealand, because it will allow investment in CCUS to be evaluated against other forms of sequestration or emissions reduction on an equal footing with those other measures.

4. Separate from the issues raised in this consultation, we note that investment decisions for all greenhouse gas emission-reduction solutions are facilitated by having a clear and rising carbon price trajectory.

#### **Time is of the essence**

5. Gas is a fuel in transition – as the world moves from traditional gas sources to renewable energies including renewable gases such as biomethane, renewable liquid gas, rDME and green hydrogen. New Zealand's declining natural gas fields imply that there is a limited time frame in which they can benefit from investment in CCUS. The regulatory regime needs to be put in place quickly so that business cases for investment in CCUS benefit from the longest possible return period.
6. **We submit** that if the regime is not signalled quickly, and operational within 2-3 years, some emitters for which CCUS is the logical solution will likely need to commit to other emissions-reduction options, or cease operation.
7. Given the multitude of overlapping laws that currently govern consenting, use, monitoring and accounting for CCUS, the solution most attractive to potential investors would almost certainly be a fresh, unified regime – a single coherent CCUS framework. However, we consider that to be unrealistic: it would take a long time to design and implement, and therefore defeat the goal of enabling the rapid adoption of CCUS as a viable tool for emission reduction.

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<sup>1</sup> In its *Sixth Assessment Report* (AR6), the IPCC emphasizes that limiting global warming to 1.5°C or 2°C above pre-industrial levels will require significant reductions in greenhouse gas emissions across all sectors. CCS and CCUS are identified as essential components in the portfolio of mitigation options. In its report *CCUS in Clean Energy Transitions*, the IEA notes that "Reaching net zero will be virtually impossible without CCUS".

8. Rather than developing a bespoke CCUS regulatory framework, **we recommend** New Zealand should look to regimes in place in other countries (particularly Australia) and adapt them, working closely with industry and other stakeholders. Where appropriate, elements could be incorporated within existing legislation, and where necessary, stand-alone legislation put in place. Some elements of a CCUS regime could be implemented relatively easily; others will be more complex and may take longer. This approach should both accelerate the development process, and – to the extent our regulatory provisions are aligned with internationally established practice – make New Zealand CCUS projects more amenable to foreign investment.
9. In developing a New Zealand regime, the urgent focus should be on adopting measures that enable CCS for oil and gas fields and CCUS for point-sources of emissions. Accommodating other emerging uses (such as direct air capture and storage, and mineralisation) is less pressing, due to the less advanced state of development and the cost of the relevant technologies.
10. The need for speed also implies that once the regulatory framework is in place, the consenting regime for proposed CCUS projects must enable rapid investment and construction.

#### Treatment under the Emissions Trading Scheme

11. **We support** the approach proposed in the consultation paper of allowing operators to either subtract captured emissions from their ETS liability or to receive NZUs under the ETS for CO<sub>2</sub> that is verifiably sequestered via CCUS activities. This approach would ensure CCUS has carbon accounting parity with other forms of emissions reduction, which will in turn support discovery of the greatest emissions reduction at the lowest cost. The regime should apply to all CCUS activities.

#### Monitoring regime for CCS activities

12. Unlike some other types of facility, CO<sub>2</sub> storage facilities involve the storage of a substance which is naturally occurring in abundance, relatively harmless (climate change impacts, aside), and safe to handle. The primary purpose of CCS monitoring and reporting is not environmental, but financial: that is, to ensure that for the purposes of carbon accounting:
  - the participants in CCS at various stages of the process are properly identified;
  - the quantities of CO<sub>2</sub> captured, transported, and sequestered are robustly calculated and recorded;
  - when an operator has been granted an NZU or reduced ETS liability in recognition of a unit of carbon permanently sequestered, the carbon remains permanently sequestered.
13. **We support** the proposal that New Zealand's CCS monitoring, audit and compliance regime should be based on the Australian regime, and relevant audit and compliance provisions in the ETS and Crown Minerals Act 1991 (CMA).
14. **We are open** to the establishment of a minimum threshold for certain monitoring requirements for small-scale pilot projects if this would accelerate adoption without undermining the integrity of the system.

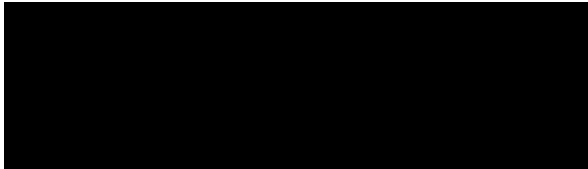
## Operator liability and Crown indemnity for CO<sub>2</sub> storage sites

15. A clear framework for operator liability for CO<sub>2</sub> storage sites that is proportionate to the risks involved is critical to unlock investment in CCUS. **We support** the adoption of a CCS-specific approach to liability based on the Australian model, as proposed in the consultation paper.
16. As noted in the paper, post-decommissioning liabilities connected with repurposed oil or gas reservoirs and any environmental impacts will be addressed under existing legislation such as the CMA or the Exclusive Economic Zone and Continental Zone (Environmental Effects) Act 2012. Imposing post-decommissioning liability for a CO<sub>2</sub> storage site primarily addresses the risk of carbon leakage and the associated carbon accounting obligations.
17. **We agree** that on decommissioning, the operator should be required to demonstrate there is a negligible risk of future leakage and, if necessary, demonstrate its ability to meet any maintenance and remediation costs (as set out in points 5 and 6 of the consultation paper). It is worth emphasising that the likely leakage risks arising from a CO<sub>2</sub> storage facility (principally escape of a gas that is already abundant, and which may be absorbed – e.g. into seawater - before it reaches the atmosphere) are different in kind and environmental impact to the risks associated with an oil leakage.
18. The New Zealand regime should seek to strike a balance between protecting the Crown (i.e., all New Zealanders) against having to bear the potential future costs of CO<sub>2</sub> leakage from failed CCUS projects, versus the national emissions reduction benefits of a CCUS regime that is welcoming of investment.
19. **We agree** that the Australian model strikes a fair balance with its minimum 15-years post-closing liability, plus the ability for the Government, once satisfied that the risk of any future leakage is not significant, to assume any future liability. **We submit** that if the operator is able to satisfy the Government earlier than 15 years (for example, based on the specifics of the site and its operation), an option could exist for earlier transfer of residual liability.
20. **We do not agree** that “trailing liability” provisions are appropriate to cover the risk that a new owner is unable to meet liability obligations of the original owner. Once a site is sold the vendor is no longer in a position to monitor and ensure compliance. Such a provision would deter investment in CCUS, rather than encourage it.
21. If protection against such insolvency risk is required, **we recommend** that consideration be given instead to a financial fitness test that could be applied to the purchaser by the CCUS regulator in connection with the sale of a CO<sub>2</sub> storage facility. Any such test should be very clearly set out in regulations, so that potential vendors and purchasers can apply it to accurately assess the transaction’s regulatory risk when negotiating any potential sale. Alternatively, consideration could be given to requiring CCUS operators to contribute to a post-closure stewardship fund on a basis proportionate to the volume of sequestered CO<sub>2</sub>.

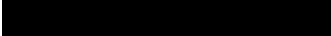
## Conclusion

22. GasNZ strongly supports the proposal to implement a CCUS framework in New Zealand, and we appreciate the chance to submit on this important consultation.
23. We would welcome further participation in ongoing discussion as you develop policy recommendations. Please do not hesitate to contact us if you wish to discuss any aspect of our submission further.

Yours sincerely



**Jeffrey Clarke**  
*Chief Executive*  
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**cc:** Nick Hannan, Chair, GasNZ