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Submission on He Tūāpapa ki te Ora: Infrastructure for a Better Future

OMV New Zealand Limited welcomes the opportunity to make a submission on the New Zealand Instracture Commission's strategy consultation document *"He Tūāpapa ki te Ora: Infrastructure for a Better Future"* (Infrastructure Strategy).

OMV NZ

OMV is a major energy provider for New Zealanders. Our business is helping to meet the energy demands of New Zealanders, now and into the future, in economically, environmentally, and socially responsible ways.

OMV operated ventures produce around 50% of New Zealand's daily gas production via the Maui and Pohokura gas-condensate fields. OMV's share is approximately 40% of New Zealand's natural gas production and a significant proportion of New Zealand condensate (light oil) production.

The company directly employs some 350 staff based in Wellington and Taranaki

Importance of Gas

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Gas currently contributes about 20% of New Zealand's primary energy needs[1] and is used as fuel for electricity generation, a heat source and as a feedstock for petrochemical manufacture. Gas is a lower-emissions source of energy where the alternative would likely be either domestic or international coal (e.g. in the production of Methanol, thermal power generation or as a source of process heat).

While the country's emission reduction pathway sees a reducing role for gas, transitioning the country's energy systems will take time and gas will have an important role to play in New Zealand's energy mix for many years to come.

[1] https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-statistics/energy-balances/, Energy Balance Tables, calculated from the Total Primary Energy supply for 2019

The GIC's recent supply/demand analysis[2] saw very significant gas demand still in 2035 and the Climate Change Commission[3] and the BEC TIMES Energy scenarios[4] all assume an ongoing need for gas out to 2050 and beyond. Ensuring that gas can play the role envisaged for it is critical to delivering a low-carbon transition.

For example, Fonterra has indicated that if insufficient gas is available, it will need to re-direct resources from their current programme of converting coal boilers and instead replace lower emissions gas boilers[5]. Similar situations exist in power generation (where gas can replace coal) and petrochemicals (where domestically produced Methanol displaces Methanol made from coal overseas).

Beyond the use of gas as a transition fuel, there also exists an opportunity for gas to decarbonise by transitioning to Hydrogen[6] and biofuels.[7]

While relatively immature in New Zealand, we see that there is a potential role for Carbon Capture and Storage which, if materialised, could see the continued use of gas with very low net emissions.

Framework for assessing the future role of gas

OMV sees that decision making today about the future role of gas should consider (not an exhaustive list) that:

- the climate change reduction targets embedded in legislation are expressed as "net" targets, the primary target being net zero by 2050
- when managing uncertainly over decades-long time horizons a good strategy is to not close-off options earlier than needed
- relying largely on the ETS to drive reductions is one of the most effective (lowest cost) ways to achieve targets and retain optionality (because the ETS is inherently technology agnostic).

We notice the Consultation Document refers to a zero-carbon energy infrastructure by 2050. It would seem more consistent with the country's emissions targets for this goal to refer to a net-zero carbon energy infrastructure.

While OMV is supportive of using the ETS as the primary mechanism to decrease emissions, we note the absence of clarity on whether Carbon Dioxide reductions from Carbon Capture and Storage (CCS) will be eligible for ETS credits in the current scheme. This lack of clarity inhibits the investigation and development of CCS as a potential emissions reduction option and effectively removes it from consideration before its case can be properly assessed.

OMV's view on the importance of keeping options open when making decisions over long time periods seems aligned with the Consultation Paper when it says *"Decisions need to open up a wide range of future options and, where appropriate, keep options open for as long as possible"*.

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[2] Gas Industry Company, Gas Market Settings Investigation Consultation Paper, pages 15 to 18

[3] Climate Change Commission, Ināia tonu nei: a low emissions future for Aotearoa, Advice to the New Zealand Government on its first three emissions budgets and direction for its emissions reduction plan 2022 – 2025, Page 154, Figure 8.7,

[4] Insights | TIMES (bec.org nz)

[5] https://www.energynews.co.nz/news-story/dairy/87551/gas-shortage-risks-climate-goals-fonterra

[6] Firstgas-Group_Hydrogen-Feasibility-Study_web_pages_R1204.pdf (gasischanging.co nz)

[7] https://gasischanging.co.nz/our-path-to-zero-carbon-gas/biogas-trials-out/

Infrastructure Needs

The Infrastructure Strategy correctly identifies the key infrastructure issue associated with the role that gas is expected to play in the future. Namely:

> *Maintaining a viable gas industry during the transition will be challenging due to the high costs of maintaining gas deliverability and because of the fixed costs of gas transmission and distribution.*

These issues are the subject of the recent GIC Gas Market settings investigation[8] and recent Commerce Commission open letter which received responses that highlighted the importance of a charging regime for the gas transportation infrastructure that didn't result in the premature demise of transportation network.[9]

In recognition of the ongoing role of gas in the energy transition out to 2050 and beyond, the potential for gas to decarbonise via hydrogen or biofuels and the possibility of Carbon Capture and Storage to store emissions from the use of gas, OMV would support adding a recommendation under section F.2 that ensures the ongoing operation of the gas infrastructure network so that it is available for all future gas requirements.

Specific Feedback

Option F1.1 requires *"all infrastructure projects evidence they are compatible with a net-zero carbon emission future to prevent infrastructure with a long asset life locking-in a high-emissions future"*.

It is difficult to see how this recommendation could be practicable for a project with emissions as it would require knowledge of how the emissions may be reduced elsewhere in the economy. If the main mechanism for ensuring economy-wide emissions reductions is the ETS, the organisation responsible for the infrastructure project may not have any way of knowing where in the economy the emissions will be reduced to offset its project's emissions.

Also, the other requirements in this Option (ensuring an appropriate ETS price is used and that mitigations and adaptions are assessed) are sufficient to achieve the aim of not locking in high-emissions long life assets.

Option F2 does not mention the importance of the ongoing role of gas out to 2050 and beyond and OMV is of the view that it would be valid to add an Option under F2 that seeks to ensure that the gas transmission and distribution networks are available for continued use for natural gas, hydrogen, biogas and Carbon Capture and Storage through the transition and beyond.

Option F2.3 recommends to *"Investigate the need for a specific regulatory framework for offshore energy generation"*. We support this recommendation and suggest that a similar recommendation be added for Carbon Capture and Storage to ensure that potential emission reduction technology can be considered as a tool for helping New Zealand meet its emissions targets.

Thank you for the opportunity to submit on your consultation and we would be happy to meet and discuss any of the above topics with you.

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[8] Gas Industry Company, Gas Market Settings Investigation Consultation Paper, pages 15 to 18 Gas Market Settings Investigation Consultation Paper

[9] Commerce Commission - Open letter – our regulatory priorities for energy networks and airports (comcom.govt.nz)

Yours sincerely

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