

20 May 2021

Cassidy McLean-House
Ministry for the Environment
Wellington

By email: mitigation@mfe.govt.nz

Powerco Limited

35 Junction Street
Private Bag 2065
New Plymouth 4340

☎ 0800 769 372

🌐 powerco.co.nz

Powerco submission on *Phasing out fossil fuels in process heat*

Powerco appreciates the opportunity to comment on the Ministry for the Environment's (Ministry's) policy options on how to phase out fossil fuels in process heat.

Powerco is one of Aotearoa New Zealand's largest gas and electricity distributors, supplying around 340,000 (electricity) and 112,000 (gas) urban and rural homes and businesses in the North Island. Decarbonisation is a priority for Powerco – we have committed to achieving net-zero emissions by 2030.

We support the Ministry's goal to reduce industrial emissions and support New Zealand's transition to a low emissions economy. How and where should we reduce emissions? This is a complicated question. Decarbonisation of the energy sector involves addressing a complex set of interdependencies across multiple dimensions: consumer preference, time, economics, and fuels. There is a lot of recent modelling, research, and analysis to inform any policy choices. Our comments are made in this context.

- **The Ministry's policy options should consider the Climate Change Commission's final report** The Climate Change Commission's (Commission's) recommendations will provide the direction and priority of policy to reduce emissions. So, before the Ministry offers its policy advice to the government it would be prudent for it to wait for the Commission's final advice. Doing this will support a consistent and coordinated approach to emissions reductions, particularly in the time and fuels dimensions.
- **Policies that target natural gas should dovetail with the development of a National Energy Strategy** Natural gas will play an essential role in New Zealand's path to net-zero emissions.¹ Because of its ongoing significance in New Zealand's energy mix, policy direction on natural gas is best addressed as part of the proposed National Energy Strategy. Introducing fuel or technology-specific policies that pre-empt National Energy Strategy outcomes could limit our pathways to decarbonisation and increase the cost. For example, it may inhibit the development and implementation of low carbon gases such as biogas, and hydrogen. Once we are several steps down a path, the cost of changing direction in the future can be prohibitive.
- **Support a flexible approach for natural gas as a coal alternative** The Ministry is proposing a more stringent approach for new coal-fired assets (prohibit) compared to other new fossil fuel assets (avoid unless there are no other economically or technically feasible fuel options with fewer emissions). A more flexible approach for natural gas is warranted because:
 - it has a lower emissions intensity than coal
 - the lack of technically feasible alternative fuels for sectors that currently rely on natural gas
 - it is consistent with the Commission's future scenarios that show an ongoing role for natural gas until 2050

¹ This is illustrated by the reliance on natural gas until 2050 in the Climate Change Commission's preferred path. Similarly, advances in low carbon gases such as biogas, and hydrogen suggest natural gas and natural gas assets can be used to reduce industrial emissions.

- it will allow for incremental emissions improvements as coal boilers transition to alternative technologies. For example, coal-to-gas switching can provide significant greenhouse gas emission benefits.²

Please contact Nathan Hill (Nathan.Hill@powerco.co.nz) if you have any questions about this submission.

Yours sincerely



Andrew Kerr

Head of Policy, Regulation, and Markets

² On average coal-to-gas switching reduces emissions by 50% when producing electricity and by 33% when providing heat. IEA (2019), "The Role of Gas in Today's Energy Transitions", IEA, Paris <https://www.iea.org/reports/the-role-of-gas-in-todays-energy-transitions>.