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**Minister of Energy**  
**Minister Responsible for Climate Change Issues**



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**Speech**

**Energy Federation**

Thank you for inviting me to speak at today's luncheon seminar. This is a valuable opportunity to outline recent developments in the energy and climate change portfolios.

Today I'd like to start by looking at what the government is doing in energy before taking you through where we have got to in climate change following the policy review and the decision late last year not to proceed with the proposed carbon tax.

Most of you will be familiar with the issues we have had to deal with over the past six years in the energy portfolio. As a result there have been a number of enhancements introduced to improve the performance of the energy sector. The key initiatives include:

- The establishment of the National Energy Efficiency and Conservation Strategy to promote improvements in energy efficiency and renewable sources of energy
- The establishment of the Electricity Commission to take responsibility for the governance and regulation of the electricity industry
- The Government Policy Statement on Electricity Governance tasking the Electricity Commission to monitor security of electricity supply and implement the reserve energy mechanism
- The release of the Sustainable Energy discussion document which alerted the government to sector and public concerns about long-term energy security, affordability and sustainability issues

- Accelerated investment in gas exploration incentives which will be progressively implemented from 2005 onwards to help secure future gas supplies.

Looking ahead to the upcoming energy policy programme in the current government term, a clear challenge is meeting New Zealand's future energy needs in a way that protects our way of life, economy and the environment. More specifically, to advance an energy system over time that balances three high-level sustainable development outcomes:

1. Reliability and resilience, balanced against costs involved;
2. Environment responsibility (both locally and globally); and
3. Fair and efficient pricing.

To help us all concentrate our minds on these issues, we announced last year that we would develop a National Energy Strategy.

It is intended that this will provide long-term direction and leadership for the energy sector – and will put New Zealand firmly on the path to an energy system that supports sustainable economic development.

I would like now to outline some general guiding principles for the National Energy Strategy.

First, it needs to take a long-term view. Of course it is difficult to set energy policy over decades due to the uncertainty of future events and developments. Instead the National Energy Strategy will involve exploring future energy scenarios, facilitating stakeholders' views on possible transition paths, identifying key values/objectives and setting a long-term direction. The strategy may develop a number of possible different transition paths and the role of government and market in each of these paths.

Second, the Strategy will incorporate a system-wide view, covering both demand and supply and related policy areas such as climate change. Security of supply of both stationary and transport fuels will remain a key priority and the Strategy will draw on various scenarios that explore New Zealand's energy options.

We accept, of course, that some thermal power will be needed in our energy system for the foreseeable future, to allow for the vagaries of our weather that affect both hydro and wind generation. The strategy will model the mix of generation types New Zealand has available. It will also assess the scope for reducing greenhouse gas emissions from changing the generation mix while maintaining acceptable thresholds of price and security.

Third, the Strategy will also give some thought to the impact of energy choices more broadly. For example the potential impact of land use change from growing biofuel feed stocks on competing activities such as agriculture.

Fourth, the Strategy will integrate the aims of the National Energy Efficiency and Conservation Strategy. Where possible the National Energy Strategy will focus on cost-effective renewable sources of energy, to augment the renewable energy supplies – over 500 megawatts – that have come onstream over the past six years. I am determined to maintain, and where possible increase, a high proportion of generation from renewable sources. In addition the National Energy Strategy will address any outstanding barriers that might limit opportunities for energy efficiency improvements from smaller scale generation technologies or utilising local energy sources. Work is already underway to explore whether there is a useful role for national guidance, under the RMA, on generation and electricity transmission. Hand in hand with these studies will be an assessment of the related transmission, grid control and load management issues associated with various types of distributed generation, particularly where generator outputs vary markedly with time.

Fifth, the Strategy needs to continue to promote a favourable investment environment in the energy sector. Businesses will be key players and central to promoting and promulgating sustainable energy practices, particularly through long-lived, energy efficient and emissions-reducing capital investments.

Sixth, the Strategy will also provide a long-term focus for energy R&D priorities and programmes and highlight where the potentials and roadblocks currently lie in respect of new energy technologies. This is invaluable because timely access

to new technologies and energy resources is not something about which this government can be indifferent. I know that Energy Federation has been very active in developing an Energy Research Investment Strategy and I thank you for this valuable contribution.

Lastly, it is obvious that an enduring sustainable long-term vision will require strong energy sector/community buy in. The development of the Strategy will require a robust, transparent process that encourages engagement with all interested parties. A key role for government will be to facilitate process/debate and to ensure everyone has the opportunity to have their say. A draft Strategy is likely to be available for wide consultation sometime in the second half of this year.

Of course the Strategy will not be the silver bullet, and it cannot provide the certainty of outcomes that we desire. Inherent unknowns include New Zealand's future climate change obligations, the timing of a decline in oil reserves and availability of future technological developments. Nonetheless the development of the National Energy Strategy will aim to:

- Clarify government policy. There has been a growing need to pin down our policy in a number of areas and I look forward to progress in the development of that work.
- Integrate energy policy with related policy areas such as climate change.
- Highlight further development of existing policy where necessary.
- Identify where new cost-effective actions/initiatives may be required.

As you can no doubt appreciate the scope and scale of the work programme ahead is considerable. I would invite you all, as well as the wider community, to contribute to this important work.

Moving now to Climate Change policy. I want to reiterate that two important points. First, climate change is accelerating and poses a significant threat to our economy and way of life. Second, the government is committed to reducing emissions and meeting our international obligations.

These are not up for debate but how we reduce emissions is currently under review.

Before Christmas the Government announced we will not be proceeding with the proposed Carbon Tax and instead will consider other ways to manage New Zealand's greenhouse gas emissions;

This means there will not be a Carbon Tax or other broad based tax in the Kyoto Protocol's first commitment period (2008-2012); but a more narrowly-focused tax is still a possibility.

The decision regarding the Carbon Tax and the need to review our current climate change policies directly followed the receipt of a 475 page report I received from a cross-departmental team responsible for undertaking a stock-take of New Zealand's climate change policies.

The review was timely given the changes that have occurred since the 2002 policy package was introduced as since then we have had higher than expected economic and emissions growth;

The Government has asked officials to undertake further policy analysis and then report back to Ministers in March on a climate change policy work programme. I intend to discuss this advice with my colleagues and the Government will provide further guidance by early April.

The March report back will include work programmes for the following issues relevant to the energy sector:

- Revisiting New Zealand's climate change goal;
- Alternatives to the Carbon Tax – including possible voluntary - or possibly mandatory arrangements - to replace Negotiated Greenhouse Agreements;
- The role of the Kyoto Protocol mechanisms (Joint Implementation, the Clean Development Mechanism and International Emissions Trading) in a unit purchasing strategy;

- Incentives for renewable energy and disincentives for fossil fuel based electricity generation;
- Opportunities to reduce energy emissions generally, including through the development of the National Energy Strategy and energy research priorities;
- Review of the National Energy Efficiency and Conservation Strategy (NEECS);
- Incentives or disincentives for purchase and use of transport modes and vehicle efficiency; and
- The need for and future shape of cross-sector incentive programmes such as the Projects to Reduce Emissions programme.

As part of developing this advice a meeting is planned for Thursday 16 February with major CO<sub>2</sub> emitting industries (essentially the NGA firms and electricity companies) to seek their views on the work programme;

Once the work programme is scoped there is likely to be further stakeholder consultation on the detail of policy options;

I emphasise the Government is open to consideration of a wide range of (effective) policy responses, while also wanting to initiate developed policies as soon as possible. This will present some coordination challenges for all parties involved;

I look forward to the energy sectors' contribution to this very important process over the coming months.

Thank you.

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