Opening

Transcript

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Rob Whitney - CRL Energy, Chair EFNZ

Hon Pete Hodgson, overseas visitors and delegates to this New Zealand Conference. Looking at the way forward for New Zealand Energy, I think it is quite appropriate that we have set ourselves a task to do over these next two days. We are going to present you with as much information around the subject of New Zealand's energy future as we can. This will be both a world-wide view looking at the global environment, with a big E and a little e if you like, and a New Zealand view, looking at what our energy resources are, how technology will change, factors about markets and demand. We have brought in a whole range of speakers and information for you.

What we are looking to do, today and tomorrow, is to move to a situation where we can actually begin to build up a shared vision of what New Zealand's energy future might look like. We will then identify some of the things we are going to need to do to get to that energy future. We will want to preserve the role energy plays in providing New Zealand with good competitive advantage, particularly in adding value to our export commodities. We will want to preserve our environment in all these things which we do in a time of changing resources and global issues.

I would like to acknowledge the generous support of all our sponsors, without whom this conference and the quality of speakers we have today and tomorrow, would not have been possible. I thank them for their support.

I now ask Don Elder to introduce our first speaker.

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Don Elder CEO Solid Energy:

Thank you Rob. Welcome to everyone here today. It is a privilege for Solid Energy to be able to be a Platinum Sponsor of the Conference. Although coal generally is a very small part of the electricity sector in New Zealand at present, we are a more significant part of the primary energy sector. We understand that as a part of the flexibility and security of the supply that New Zealand requires both in the present and in the future, we are likely to play a significant role and one in which we have to be very aware of our responsibilities.

Our first speaker is the Minister of Energy who really needs no introduction. In fact, I have heard him referred to in the past as the Minister of Everything, which is not quite

true but certainly if you observe how active he is and how very engaged he is in the industry, it is sometimes not far off the mark.

Pete Hodgson is a Minister who has unbounded energy, it seems. Having worked with him and seen him in action over the last eighteen months I think we are very fortunate to have a Minister who does spend so much time on the issues and works very hard and in a very detailed rather than a superficial way. Some of his portfolio responsibilities are directly relevant here. His various responsibilities include Minister responsible for Crown Research Institutes, Minister responsible for Research, Science and Technology, Minister responsible for Climate Change and of course Minister of Energy.

Without further ado or introduction, Minister, I look forward to your presentation.

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Hon Pete Hodgson, Minister of Energy
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Don Elder: Thank you Minister. As we expected, that presentation has provided an excellent introduction to the Conference. You have touched on a number of key issues and posed a number of key questions which I believe will be discussed by presenters during the conference, and I am sure will be actively discussed and debated during the sessions.

Some of the key points are that Government and the country are committed to a sustainable energy future. That sustainable energy future includes some significant demand-side objectives, including as the Minister said, a 20% improvement in energy efficiency, 30 petajoulesincrease per annum in renewables by 2012, and of course significant greenhouse gas reductions along with those other objectives.

He also made some very pertinent comments on the need for improvements in modelling. Whether Transpower is too optimistic, or the work by Bryan Leyland's CAE/Sinclair Knight Merz study is too pessimistic, quite clearly needs to be determined by some really good and robust modelling that can be actively debated and be used by everybody going forwards.

And then I think you posed four key issues that need to be very carefully thought about. These are the *planning for future supply* and you suggested that there is plenty of new supply coming into the pipeline in additional electricity generation. There is the *availability of gas* where we have fallen a bit behind the eight-ball, but there are active initiatives to look for more gas and there are gas fields able to come on soon. There is also the need to look at the *demand side*, and particularly at the ability to work with

demand in a dry year. And finally there is the need to recognise *the climate change initiatives* that are already in progress.

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Discussion

Molly Mehuish: The industry's rulebook application did not answer the challenge of the Sustainable Energy Forum to the effect that retail markets need to be tightly linked to wholesale markets if the demand-side options are going to gain any commercial advantage. Would you support any radical rulebook changes needed to achieve that tight linkage?

Pete Hodgson: It might be that your question was posed around whether or not there could be a requirement, and if not a requirement then a series of incentivesm for retailers to involve themselves in energy efficiency. If so, retailers have begun doing so, not because they are necessarily making more money out of it, although there are plenty of mechanisms by which they might, but because they are using it as a way to improve their market share or attractiveness. Very importantly, there is an outfit, called the Energy Management Association, which is emerging as a clever but still embryonic group of people, who are providing energy efficiency services outside the electricity industry or the energy industry. That is to say, they are not purveyors of energy or electricity. They are purveyors of efficiency. And it is very important in my view of how society should be, that if I am a consumer of electricity or energy, that I have the option of going to my energy or electricity supplier and saying: "Make me feel good and you feel good and I will be loyal by you involving me in teaching me how to be more efficient or indeed getting into investment. But allow me also to go to the Yellow Pages and get an energy audit free from the electricity or energy industry if that is my choice."

Melhuish: I was talking about market rules that effectively shut retail energy service out of gaining anything commercially.

Hodgson: You have a great attention to detail. There are 620 pages of these rules and you will have read them!

Michael Wright: You talked about EECA strategy being a demand-side focus, which is a great idea. Is there going to be a process of re-focussing on the demand side as opposed to the supply side which is waited on at the moment?

In your speech you talked about the energy efficiency and conservation strategy being very much demand side focused, and the last version had a lot on the supply side. I wondered if there was a decision to refocus on the demand side?

Hodgson: There are five parts to NEECS. Four of them are demand side and one is supply side. The supply side was, if I can be blunt about it, set out to ask the question "do we need an economic instrument such as they have in Australia to promote energy

efficiency?" Because we did not know and we found out that we don't. And the reason that we don't is several-fold. The most accessible answer is that we have got ourselves a price mechanism through the Kyoto Protocol. And so I touched on the emissions charge making renewables more attractive, just by its existence.

But I also touched on the projects mechanism, especially from 2008, which I am sure will tip over the line a number of renewable projects which would not otherwise have got there. I will just go a step further and say that there are other things that one can do in the Kyoto Protocol. One of them is called joint initiatives which is a Government to Government trade, and even before the Kyoto Protocol comes into force such joint initiatives are under active exploration in New Zealand.

John Blakeley: There seem to be quite varying views about the future availability of gas supplies, particularly in the short to medium term as Maui declines. Do you think that the fact that there is probably a five-year lead time for new fields is very significant here, because at the moment we just seem to have Pohokura and a few other possibilities which are more expensive? If the decline of Maui, and we know there is some uncertainty about 2007, actually happened earlier rather than later, and with that five-year probable lead time on the other fields, does that cause you some anxiety?

Hodgson: No. I was starting to get anxious around May or June because I could not quite understand what was going on. Since then we have looked quite hard at a lot of things. In fact I could get you a very interesting graph being put out by Shell which lists not only Maui and Pokukura but about a dozen other fields as well, all of which, as I said in my opening remarks, are proven, sometimes producing, and consented. There are then a number of other fields that are not proven or producing and still further fields have just been found or are in the process of being found. So there is a continuum of fields available.

The most likely to come on stream - not my decision, it is a commercial decision - is Pohokura. We had thought that the contracts for that might be let from about June. We wondered whether that could be brought forward and it turns out that Shell has indicated last week that they are thinking of March. Pohokura's size is not yet proven and that is a matter of some commercial sensitivity, but it is thought to be in the order of a quarter to a third of the size of Maui. The really important point about this business of gas is that if we discover the gas too early, someone will dig the hole and spent the money before they need to. I think it is just time for us to all pause, and reflect on the fact that for most of our adult lives Maui was there. It isn't any more. Another Maui should be excluded from prospects. We might happen upon one but it would be unduly optimistic to presume so and we need to start thinking around an eight, nine, ten or eleven year horizon for gas reserves, because if its greater than that we will have prematurely explored. And the banks have to get used to that too. The idea that there is going to be a twenty-year gas contract before you can turn the first sod on your CCGT plant is yesterday's story. Now, eight years, ten years, whatever, the banks will have to lend on that and take a risk on gas being found in the future.

I might make one other point, and I hope not churlishly, that we are reminding ourselves that non-sustainable energy use is non-sustainable, as we watch Maui disappear on us.

Dwayne Pretli: There has been a lot of talk about fossil fuels so far this morning, I would just like to point out that Pohokura has a high CO_2 content. Minister, we are supposed to have made significant progress toward our Kyoto obligations by 2005. I wonder if you can outline for us, what sort of significant progress you envisage in terms of CO_2 reduction?

Hodgson: I doubt that I can. The international language that you have referred to is itself fairly nondescript and in terms of us maintaining our credibility internationally I don't see any difficulties whatever. That is a reflection only on the fact that the language has no numbers around it. But to try and answer your question with a little more clarity, it is going to be dependent on some things that are external to us. Here are three of them. Will Methanex still be producing in 2005 or not? Will hybrid motor vehicles have made their way into this country to any extent by 2005? This is given that we have been talking about electricity all morning, and given that our thermal electricity emissions are about 8% of our total green house gases, and transport is about 18%. We have a dozen or two hybrid vehicles here now. Will there be a hundred or two? A thousand or two? Or ten or a hundred thousand? What will happen there? And that depends a lot on Honda and Toyota, though I wouldn't want to be seen to be favouring anyone.

Thirdly, will New Zealand's agricultural researchers have progressed at all with methane mitigation strategies, reminding ourselves to get into perspective that 54% of our greenhouse gas emissions come from non-CO_2 agricultural emissions - nitrous oxide and methane. We have a Kyoto profile unlike any other country in the world. And that is why this month I hope to progress discussions with US researchers on methane mitigation and why officials were in Australia last week doing that. We are of course in New Zealand as good as anyone, and better than most, but there needs to be an international effort for that. And if we have achieved something, a pro-biotic, a new rye grass, whatever it is to be, then we will have made some significant progress. But if we haven't achieved something we will not have made this progress.

It is not the answer you expected but I did it just to remind you that our Kyoto profile is a really different thing to other countries.

Dwayne Pretli: Minister, just building on that, I just want to know from an international perspective how much you are going to use these goals you have just mentioned and tap international markets to help meet your Kyoto Protocol goals? How much are you going to use Kyoto and mechanisms like CDM to meet your at-home needs by using the things you have just talked about internationally?

Hodgson: The Kyoto Protocol is brilliant in its flexibility and so for those of you who are familiar with CDM (Cleaner Development Mechanism) you will be aware that there are quite significant opportunities for New Zealand business. CDM requires someone, say a NZ business, to make an investment in a developing nation, a nation that does not

have a Kyoto target, that would not have otherwise occurred. And if it passes that test, the not-otherwise-have-occurred test - it is known in the language as the additionality test - then it is eligible to secure for itself and therefore for its country of origin, the emission reductions that have occurred as a result of the investment. They become a tradable item.

New Zealand businesses are at the moment, not yet well appraised of these opportunities and are becoming a little better at this. A couple of months ago some officials and some people in the forestry industry, went to Scandinavia to look at biomass. In a couple of weeks a bunch of New Zealand businesses will be going offshore again, to Washington, to London, and into Europe, partly accompanied by me, but mostly of their own accord, to look at NGA (Negotiated Greenhouse Agreement) issues.

These are all things that are intended to improve the understanding of the New Zealand business sector regarding the opportunities that Kyoto presents, because so far, in this country the debate has been how do we minimise the cost, instead of how do we maximise the opportunities. The opportunities are very significant and I think New Zealand will make a contribution. I hope we will start in the Pacific and perhaps in places like Indonesia where we have some geothermal history already. But there is a very significant series of opportunities for New Zealand companies.

I am not sure whether that is why you asked the question, but I thank you for doing so.

Don Elder: Minister, I think we are running out of time, so once again, you have set the stage extremely well for some debate during the conference and I think we all look forward to that. Just as an example, one of the issues that will come forward during the conference relates to the point about coal. Conventional thinking has been that coal-fired electricity generation will be 10 cents a kilowatt-hour plus. As I think we will be hearing during the Conference, there is another 2000 Megawatts capacity of coal-firec electricity generation available in the immediate future for around 4 cents a kilowatt-hour at Huntly. Therefore there are another two and a half equivalents of the Maui gas field of coal available at less than 5.5 cents a kilowatt-hour and another 15 Maui equivalents of lignite that can probably generate electricity at less than 6 or 7 cents a kilowatt-hour.

But the question will be, and this is what we should be discussing during the Conference, does that have a role at all in New Zealand's sustainable energy future? A commercial right is by no means an absolute right. Issues such as flexibility, security, commercial attractiveness are obviously commercially relevant, but greenhouse gas emissions are also relevant. Will the new technology's 50% plus efficiency justify that or will there be better alternatives. Those are the sort of issues I think we should be discussing during the Conference. I suggest as we go forward and consider supply/demand issues and externalities that we use the framework suggested by the Minister as an excellent framework to consider all these issues and the papers that will be presented.

To the Minister, thank you very much. You have presented a very good framework for discussion, answered questions extremely clearly, obviously based on a lot of hard work,

knowledge of the industry, and engagement with the industry. I think we all appreciate that. Thank you very much.

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