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By email: gasfuelpolicy@mbie.govt.nz

Proposals for a Regulatory Regime for Carbon Capture, Utilisation and Storage

Mercury welcomes the opportunity to provide feedback to the Ministry of Business, Innovation and Enterprise (**MBIE**) on its *Proposals for a Regulatory Regime for Carbon Capture, Utilisation and Storage* consultation paper (the paper). Our submission is brief and focuses on the role and benefit that carbon capture, utilisation and storage (**CCUS**) has in enabling security of supply in the electricity market during the transition to a low emissions economy.

Aotearoa is in a critical phase of the low carbon transition.

As we outlined in our November 2023 submission to MBIE's "Advancing New Zealand's Energy Transition" consultation package, thermal generation has a role to play in maintaining security of supply during the transition.[1] We are supportive of government actions which will improve investment conditions upstream to bring more domestic gas supply online in future. As the Boston Consulting Group explains in its 2022 report:

> *"As we transition, gas will still likely be needed to support the system during dry years. Dry years will remain a critical issue but will be alleviated by new solar and wind generation. Gas will also support in extenuating peak circumstances over the next decade. In the 2030s and beyond, the need for fast response, flexible generation, and demand capacity will be increasingly addressed due to declining costs of storage technologies and smart demand response. As the requirement for thermal peaking generation and capacity declines from 2030, there is the potential to use biofuels instead of natural gas near 2040, achieving 100% renewable electricity and further reducing greenhouse gas emissions from electricity generation"*[2]

It is expected that a CCUS regulatory framework, which extends to include CCUS into the Emission Trading Scheme (ETS), will provide investor certainty by placing CCUS on a level playing field with other emission-reducing options. This would allow CCUS to become a feasible abatement strategy and could contribute to future energy security. We therefore agree with MBIE's assessment that CCUS technology could, in the future, potentially reduce the cost of gas production and in turn "could promote investment, leading to a reversal in the current sharp decline in gas production."[3].

While we recognise the potential benefits of CCUS, we believe a measured approach is needed. As the accompanying Regulatory Impact statement notes, it is difficult to quantify with confidence the potential impacts of CCUS policy options on businesses due to "uncertainties in carbon price and how future technological developments could impact the relative costs of CCUS and other methods for reducing net emissions".[4]

The business case for investment will be improved once the New Zealand Emission Trading Scheme (ETS) settings evolve to deliver a higher carbon price. While this is unlikely to happen under current settings, we nonetheless see

[1] Mercury submission November 2023 Advancing New Zealand's Energy Transition
[2] Boston Consulting Group, 2022 The future is electric - A Decarbonisation Roadmap for New Zealand's Electricity Sector, pg. 12
[3] MBIE, 2024, Proposals for a Regulatory Regime for Carbon Capture, Utilisation and Storage Consultation document, pg.4
[4] MBIE, 2024, Regulatory Impact Statement: Policies for Carbon Capture, Utilisation and Storage. Pg 5.

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the removal of regulatory barriers as a positive step forward both for emission reductions and for encouraging gas production and support security of supply during the transition.

Mercury appreciates the Government's ongoing efforts on gas security and encourages the continuation of this important work.

If you have any questions about this submission, please do not hesitate to contact me.

Yours sincerely,

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[redacted]
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