

**In Confidence**

**Office of the Minister for the Environment**

**Office of the Minister of Energy and Resources**

**Chair, Cabinet Economic Development Committee**

**Phasing out fossil fuels in process heat: approval to consult on national direction on industrial greenhouse gas emissions**

### **Proposal**

- 1 We seek your approval to undertake public consultation on a proposal for national direction on industrial greenhouse gas (GHG) emissions. The proposal follows Cabinet agreement to develop national direction to support amendments to the Resource Management Act 1991 (RMA), which reintroduce the ability of RMA decision-makers to consider climate change mitigation [CAB-20-MIN-0051.01 refers].
- 2 The proposal will support RMA consenting decisions on discharges to air of GHGs from industry and our national emissions budgets. In particular, these tools will support decarbonisation of process heat for the heat, industry and power (HIP) sector.

### **Relation to Government Priorities**

- 3 This proposal delivers on the Labour Party manifesto commitment to phase out fossil fuels in process heat by preventing installation of new low and medium temperature coal-fired boilers. It will make a significant contribution to pursuing our carbon neutrality goals as part of our Government's ongoing commitment to addressing climate change.

### **Executive Summary**

- 4 Process heat is a critical area for emissions reductions across the first three budget periods under the Climate Change Response Act 2002 (CCRA). An important part of decarbonising process heat in the industrial sector will be putting in place regulation to ensure no new coal-fired process heat assets are built or installed and other fossil fuel assets adopt best practice to reduce their GHG emissions. Additionally, existing fossil-fuelled assets will need to be phased out, to ensure that we can meet our 2050 net-zero carbon target.
- 5 In 2020, the RMA was amended to enable councils to consider GHG emissions in planning and consenting. This will take effect on 31 December

2021<sup>1</sup> and could lead to councils managing activities that emit GHGs inconsistently across the country. Existing air discharge rules are currently not fit-for-purpose. The national direction tool(s) we are proposing to introduce will seek to address these issues and support emissions reductions.

- 6 Our intention is that national direction will make new coal-fired process heat assets a prohibited activity which will ensure that no new coal-fired assets are built (as consents will not be granted in the first instance). This will fulfil the Labour Manifesto commitment to phase out fossil fuels in process heat by preventing installation of new low and medium temperature coal-fired boilers.
- 7 National direction will also phase out existing assets by prohibiting the renewal of consents for existing coal-fired assets once expired after a phase out date (2037); and only allowing other fossil fuel assets (including natural gas) to be consented when there are no economically and technically feasible alternatives. It will also impose requirements for industry to prepare GHG emission plans through re-consenting processes and consent reviews for larger emitters, which will encourage industry to reduce their emissions and switch to renewable fuels where economically and technically feasible.

## Background

*Emissions reductions are needed across the economy to ensure we meet our first set of emissions budgets*

- 8 The Government has enacted a 2050 zero carbon target under the CCRA. To meet this target, and the emissions budgets that act as stepping stones towards this target, all sectors of the economy will need to significantly reduce their emissions. Similarly, we will need to significantly reduce our domestic emissions to meet our first nationally determined contribution (NDC) under the Paris Agreement. Emissions reductions now will help reduce the gap and minimise the need to purchase international units.

*In 2020, the Government amended the RMA to enable climate change mitigation to be considered in planning and consenting decisions*

- 9 The Resource Management Amendment Act 2020 (RMAA) will remove the sections in the RMA that prohibit local government from considering GHG emissions on 31 December 2021. It will also require councils to have regard to emissions reduction plans and national adaptation plans published under the CCRA when making regional plans, policy statements and district plans.
- 10 These amendments have the effect of linking the Zero Carbon legislation and the RMA. These national direction instruments will support these amendments by giving greater effect to these amendments.

*Process heat presents some of the most realisable emissions reductions for the first set of emissions budgets*

- 11 Process heat is a critical area for domestic emissions reductions in the short to medium term, as there are significant opportunities towards the bottom end

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<sup>1</sup> This date can be extended by Order in Council to no later than November 2022.

of the marginal abatement cost curve (though the remaining opportunities beyond this are in the middle and upper ends).

- 12 In developing the HIP sector strategy for the first emissions reduction plan<sup>2</sup> (ERP), Ministry of Business, Innovation and Employment and Ministry for the Environment (MfE) officials have identified that an effective approach to decarbonising process heat will require:
  - 12.1 an effective emissions price;
  - 12.2 a mix of incentives and support; and
  - 12.3 regulatory backstops that ban, discourage or seek to minimise further use of industrial fossil fuels.
- 13 The intention is for the proposed national direction on GHG emissions to function as a regulatory backstop for process heat emissions through banning certain new fossil fuel sites and phasing out the use of fossil fuels in existing sites over time. This will be done through regulating GHG as an air discharge, and not as a land use.
- 14 The draft advice to the Government by the Climate Change Commission recommends urgently implementing a ban on new coal-fired process heat. This was also recommended by the Interim Climate Change Committee in their *Accelerated Electrification* report. This policy will effectively implement a coal-ban for new process heat assets.
- 15 As such, timely development and implementation of this national direction that decarbonises process heat is critical to New Zealand meeting its climate change goals, and our first ERP (which will be gazetted by 31 December 2021 – the same date the RMA amendments relating to climate change take effect).

### **Interactions between national direction on GHG emissions and resource management system reform**

- 16 The Government is undertaking a comprehensive review of the resource management system, which will repeal and replace the RMA. The Minister for the Environment intends to refer an exposure draft on the Natural and Built Environment Act (NBA) to select committee in May 2021 and develop a National Planning Framework (NPF) under the NBA to perform an equivalent role to national direction under the RMA.
- 17 It is our intention that national direction on industrial GHG emissions will be readily transferrable to the NPF. While several fundamental policy decisions are yet to be made on the NPF, the transition of existing national direction under the RMA will require some amendments to be made. However, the proposed national direction on GHG emissions is specific to a sub-set of industrial emissions (fossil fuel use in process heat). As such, the proposal will be able to be readily transferred into the new resource management

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<sup>2</sup> Under the Climate Change Response Act 2002 the Government is required to produce an emissions reduction plan which should set out the policies and plans in place to meet the relevant emissions budget period.

system. Note that the Randerson review of the RMA also recommended a role for resource management planning to support reductions in GHG emissions (including industrial emissions).

- 18 MfE officials will report back to Ministers in April on the development of the NPF under the NBA, and how existing and developing national direction might be transitioned.

### **Problem definition of national direction on industrial GHG emissions**

- 19 The problem that national direction on industrial GHG emissions seeks to address is to reduce GHG emissions from process heat to support New Zealand in meeting its domestic and international climate change goals. Meeting our climate change goals requires a significant transition to a low emissions economy, particularly for process heat.
- 20 Emissions pricing will be a key mechanism to achieve a cost-effective and just transition. However, as recognised by the Climate Change Response (Zero Carbon) Amendment Act 2019, the NZ ETS alone is not likely to be sufficient to achieve the emissions reductions needed. A broad range of regulatory measures and complementary initiatives will be required.
- 21 The RMA currently prevents local authorities from considering the effects of GHG emissions on climate change when making discharge rules and assessing applications for discharge permits. These statutory barriers will be repealed on 31 December 2021<sup>3</sup> to enable RMA decision-makers to consider climate change mitigation. However, there is an absence of provisions in RMA plans to guide decision-making on activities that discharge GHG emissions or on climate change mitigation more generally. Existing air discharge rules are not fit-for-purpose<sup>4</sup> to support New Zealand's emission reduction targets.
- 22 This absence of provisions and regulatory gap in the RMA in relation to GHG emissions is likely to lead to inconsistent local authority decision-making, planning and consent complexity, regional emissions leakage and other outcomes that are contrary to the purpose of the RMA and New Zealand's wider climate change goals.
- 23 In designing RMA rules for GHG emissions, we see an opportunity to use the national direction framework to drive process heat decarbonisation. The purpose of the proposal is to address the identified risks, address the planning gap, and assist in New Zealand's emissions reductions targets and the transition to a low emissions economy. The policy objectives of the proposal are to:
- 23.1 achieve national consistency and certainty in the management of GHG emissions from industry under the RMA; and

<sup>3</sup> Unless extended by Order in Council to no later than November 2022.

<sup>4</sup> Common permitted activity thresholds in regional air discharge rules are 10MW for the burning of natural gas and 5 MW for the burning of coal. Assuming a plant is operating 60% capacity (typically for dairy processing) this equates to annual CO<sub>2</sub> equivalent emissions of 12,238 tonnes (natural gas) or 11,006 tonnes (coal).

- 23.2 reduce GHG emissions from process heat to support New Zealand's emission reduction targets and the transition to a low emissions economy.
- 24 The policy objectives of the proposal are consistent with the purpose of the RMA – to promote the sustainable management of natural and physical resources – and will assist with New Zealand's broader climate change goals.
- 25 The benefit of using national direction under the RMA to support fuel switching and adoption of best available techniques and technologies is that it can apply to existing fossil-fuelled boilers at the time of their consent renewal, and by providing for consent reviews where councils can impose best available techniques (BAT) on existing consents. It can also avoid new investment in fossil fuelled industrial heat which is expected to be a lower cost option than retiring capital equipment before the end of its useful operational life.
- 26 The Ministry for the Environment's preliminary modelling suggests that the emissions of industries covered by the proposals will reduce by 2.1 to 2.7 Mt CO<sub>2</sub>-e by 2030, with emissions reductions attributable to the proposal estimated to be between 0.5 and 0.8 Mt, and the NZ ETS driving 0.3 to 0.4Mt (assuming \$35/t). The residual emissions reductions are assumed to occur under baseline without policy intervention. In 2035, emissions are estimated to reduce by 2.8 to 3.5 Mt, with the proposal responsible for 1 to 1.4 Mt and the NZ ETS driving 0.3 to 0.4 Mt (assuming \$35/t). Larger reductions occur in later years.
- 27 We expect to see a (minimal) decline in industrial emissions under business-as-usual as we track towards to our 2050 targets. This is due to a range of domestic and international market arrangements and a rising emissions price over time. New developments in technology will support sector decarbonisation, as will the development of alternative fuel markets. This policy will be an important part of the overall policy mix, to support a transition out of fossil fuels in the industrial sector.
- 28 Other policies such as EECA's business programmes and the Government Investment in Decarbonising Industry (GIDI) fund also support emissions reductions. Further modelling of abatement will be provided to Cabinet when seeking policy decisions as part of the Climate Implications of Policy Assessment (CIPA).

**A national environment standard and a national policy statement are our preferred instruments to achieve the policy objectives**

- 29 We consider that a combined NES and NPS would be the most effective way to address the current planning gap and achieve consistent regulation and decision-making when the amendments take effect. The NES and NPS would provide the full range of provisions (objectives, policies, rules and standards) to support nationally consistent decision-making under the RMA.



- 30 The NES could support the phase out of industrial fossil fuel use in process heat through a nationally consistent set of rules and standards that would, for example, ban (prohibit) GHG emissions from new coal-fired boilers. It will also limit council discretion by only allowing discharge permits for other fossil fuel use in process heat to be granted in specific circumstances (outlined below). The NES can also take effect immediately and prevail over existing air discharge rules (which do not address GHG emissions).
- 31 To strengthen the effectiveness of the NES, the proposed NES could be accompanied by a targeted national policy statement (NPS) to set policy direction and guide local authority decision-making when a consent is required under the NES.
- 32 Avoiding the need for plan changes and ensuring the national direction has immediate effect is critical to the effectiveness of the NES and NPS, particularly in the context of system reform. Otherwise, the changes made to the RMA to allow councils to consider GHG emissions will take many years to be implemented via subsequent plan changes processes, which would also impose additional costs on councils and industrial emitters.

#### **Prohibiting new coal-fired boilers in process heat**

- 33 To achieve the policy intent of preventing installation of new emissions-intensive assets in process heat, we propose in this discussion document that the NES make the discharge of GHG emissions from new coal-fired assets for low and medium temperatures a prohibited activity. This proposal would effectively create a ban on new coal-fired industrial equipment (mostly boilers) for low, medium and high temperature process heat.

#### **Avoiding other new fossil fuel assets in process heat**

- 34 National direction would not allow other new fossil fuel assets (including natural gas) to be consented unless the applicant can demonstrate that there are no economically or technically feasible alternatives (this will require preparing a GHG emissions plan). Work is underway in the development of guidance that will accompany the instruments.
- 35 A ban on new natural gas assets is not proposed at this time because officials expect that there is still a role for natural gas in manufacturing (particularly in highly integrated<sup>5</sup> sectors) out to 2050. However, national direction will signal that the phase out requirements for natural gas be reconsidered in 2026 (five years after it comes into force).
- 36 The ban option is included in the discussion document (option 2.4) but is not the preferred option. The Minister of Energy has directed officials to investigate the ability of the energy market to support the phase out of fossil fuels, and on opportunities to repurpose natural gas infrastructure.

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<sup>5</sup> These are sectors where the use of heat is highly integrated with the manufacturing process, such as chemical and metal manufacturing.

- 37 For some manufacturers who use natural gas, no economic alternatives exist in New Zealand. Switching away from natural gas generally starts to become economic only when the carbon price exceeds \$120/t CO<sub>2</sub>-e. Depending on the timeframe (and the emissions price over time), a phase out of gas is likely to impose high costs on some industries and could force much higher abatement costs compared to more cost-effective options in industry and the wider economy.
- 38 There is also a risk of closing down options before a wider energy strategy is completed. For example, accelerating the phase out of natural gas too quickly could delay or prevent the repurposing of existing natural gas infrastructure for future hydrogen and/or biogas supply. Phasing out natural gas too abruptly in the industrial sector could also have negative impacts on security of supply in the electricity system as it transitions.
- 39 Therefore, a longer lead in time for a phase out of gas is appropriate for the development of technical alternatives, and to ensure a managed transition across the energy system. It will be supported by a phase down of industrial allocation under the NZ ETS.
- 40 The proposal would still reduce GHG emissions from natural gas use and support the phase out of natural gas for process heat by only allowing the discharge of industrial GHG emissions from new gas assets to be consented in certain circumstances. The proposal will state that a resource consent for a new gas-fired boiler must not be granted unless the applicant:
- 40.1 demonstrates, to the satisfaction of the consent authority, that there are no other economically or technically feasible fuel options<sup>6</sup> (for example, electricity or biomass), and
  - 40.2 prepares a GHG emissions plan that demonstrates how the plant will comply with best practice standards or best available techniques (BAT) to reduce emissions over time.
- 41 Industrial sites applying for consent would be required to prepare and implement a GHG emissions plan to encourage energy efficiency and the uptake of best practices, and transition fossil fuel assets to low emissions energy sources over time. There would be different compliance pathways depending on the size of the activity, the specific industry and whether it was a new or existing site. For smaller sites, only common process heat asset replacements (e.g. boilers) would be in scope (emitting 100 to 2,000 t/CO<sub>2</sub>-e per year), whereas larger sites (over 2,000 t/CO<sub>2</sub>-e per year) would also be required to assess their site-wide energy management practices and industry-specific applications.
- 42 Guidance on best practices would be provided by EECA to define and identify technical feasibility, as well as to determine economic viability (in partnership

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<sup>6</sup> Guidance to determine technical and economic feasibility is being developed by the Energy Efficiency and Conservation Authority. Indicators such as the marginal abatement cost, levelised cost of energy, shadow pricing, and the depreciation of assets could be used.

with policy agencies). Indicators such as the marginal abatement cost, levelised cost of energy, shadow pricing, and the depreciation of assets are examples of indicators that will be used.

- 43 Where the GHG emissions plan identifies that particular best practices or low emissions options are not technically and economically feasible to implement at the time the consent is applied for, the onus would be on the applicant to provide supporting evidence to demonstrate this, and the plan would need to identify when it would transition and what low-carbon technology would likely be selected. The GHG emissions plan would outline site-specific objectives, as well as the measures to meet those objectives to be implemented over time. The expectation is that the measures and objectives in the GHG emissions plan would be incorporated into consent conditions.
- 44 For large sites, it is proposed to also have their plans reviewed/certified by a suitably qualified expert to ensure the plan is robust from both a process and technology perspective. The expert would reference EECA's materials, work with the applicant to recommend any changes or provide further guidance, then provide a final recommendation to the consent authority as to whether or not the low-carbon options were deemed to be economically viable in that situation, and the reasons why.
- 45 The proposal will also set the maximum duration of consent for new fossil fuel assets. This signals a necessary transition away from natural gas (and other fossil fuels) which will be reflected in investment decisions made by industry. It will also allow these discharges to be reassessed through a new consent process (and declined where appropriate) in the context of emissions budgets and the relevant emissions reduction plan(s), and any new renewable fuel options.

#### **Abatement costs for fuel switching**

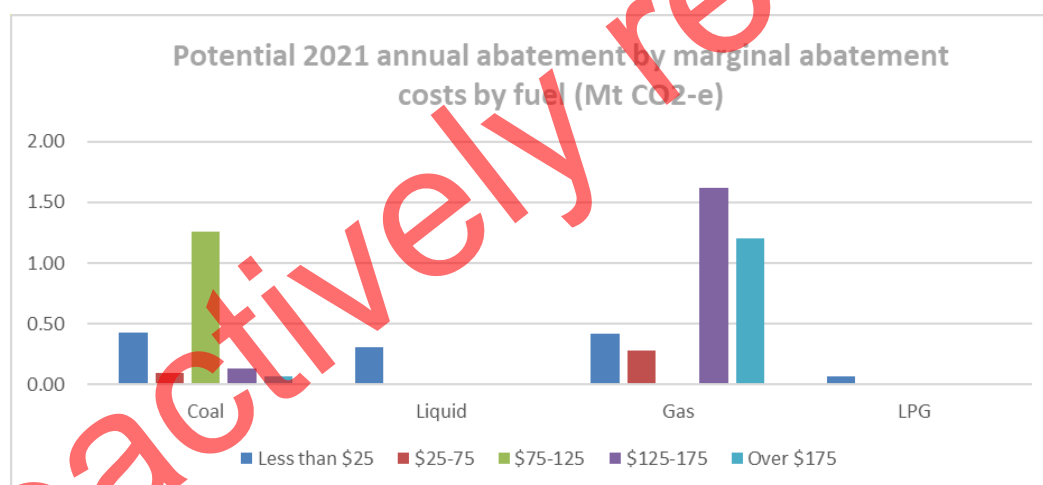
- 46 There is a large variation in the marginal abatement costs (MACs) for different fuel switching projects, as each is situation-specific driven by factors such as variations in:
- 46.1 The size of boiler (noting the relative economics of large boilers are different to small boilers)
  - 46.2 Capacity factor of the site's operation (which significantly affects the capital cost element of MAC)
  - 46.3 Prices of the different fuels to the site (driven by location, and also by capacity factor)
  - 46.4 Whether the fuel choice relates to switching away from an existing fossil fuel, or a new-build decision.
  - 46.5 Other site-specific factors such as plant layout.
- 47 The table and figure below shows the total process heat abatement potential and associated abatement costs in industrial sites (largely in boilers). Note



this shows potential across different abatement cost bands by fuel, rather than the estimated reductions from the proposed policies. This information is preliminary only and further quality assurance and refinement of abatement costs of each policy option will be provided at the Cabinet policy decision stage. The model assumes that consents are renewed every 20 years, so in general it assumes that firms would largely have recovered their costs in this time, although there still might be useful life in the fossil plant.

Quantities of potential annual abatement by marginal abatement cost (Mt CO<sub>2</sub>-e)

|               | Under \$25  | \$25-\$75   | \$75-125    | \$125-175   | Over\$175   |
|---------------|-------------|-------------|-------------|-------------|-------------|
| <b>Coal</b>   | 0.43        | 0.09        | 1.26        | 0.13        | 0.07        |
| <b>Gas</b>    | 0.41        | 0.27        | 0.01        | 1.62        | 1.21        |
| <b>Liquid</b> | 0.30        | 0.01        | 0.00        | 0.00        | 0.00        |
| <b>LPG</b>    | 0.06        | 0.00        | 0.00        | 0.00        | 0.00        |
| <b>Total</b>  | <b>1.20</b> | <b>0.38</b> | <b>1.27</b> | <b>1.74</b> | <b>1.28</b> |



### Phasing out fossil fuels and reducing emissions from existing industrial sites

48 The proposed national direction will also phase out the current use of fossil fuels in process heat from existing sites through best practice standards/BAT requirements and GHG emissions plans at consent renewal and through consent renewals. There are some limitations in the RMA as to the ability of councils to review existing discharges of GHG emissions where these are consented.<sup>7</sup> The requirements and timeframes to phase out existing fossil fuel use would therefore vary at the site level depending on the length of their existing discharge permit (where applicable), their heating requirements (e.g. use for low to medium temperature use) and fuel source as set out below.

<sup>7</sup> A NES can require regional councils to review discharge permits but any conditions imposed as part of that review must not make the activity unviable.

### *Phasing out coal in existing industrial sites*

- 49 For discharges of GHG emissions from existing coal-fired assets for low and medium temperatures, the proposal will set a 'phase-out' date (for example, 2037) beyond which consents would not be renewed. This means in practice, that no short term consent would go beyond 2037. Note the draft Climate Change Commission's path assumes coal use for food processing is eliminated by 2037.
- 50 Where existing consents expire before the phase-out date, the proposal will allow for short-term consents to be issued (for example, no longer than three to five years) to allow time for the firm to transition.
- 51 A phase-out date for coal addresses potential perverse incentives associated with banning new coal – whereby existing coal boilers are refurbished and maintained for decades to avoid triggering the definition of "new coal".
- 52 The proposal includes a different approach for emissions-intensive and highly integrated (EIH) sectors using coal provided they were complying with best practice and have a GHG emissions plan in place that demonstrates how they will reduce their emissions over time. The proposal will also set maximum duration of consent for EIH emitters to avoid the long-term lock-in of these assets.

### *Phasing out other fossil fuels (excluding coal) in existing industrial sites*

- 53 While phasing out the use of coal is a priority for process heat, the use of all fossil fuels including natural gas will need to reduce significantly in order to meet our 2050 net zero target. The proposed national direction will therefore provide consenting requirements and standards that have the effect of phasing out natural gas and other fossil fuels in industrial processes over a longer time. The proposal will state a resource consent to discharge GHG emissions from an existing fossil fuel-fired industrial site must not be granted unless the applicant:

53.1 demonstrates that there are no other economically or technically feasible fuel options with less emissions (for example, electricity or biomass); and

53.2 prepares a GHG management plan that sets out how the plant will comply with BAT/best practice standards and transition their fossil fuel assets to reduce emissions over time.

- 54 There will be costs to applicants to meet the first test both in terms of council processing costs (approx. \$2,000-3,500) and costs to obtain economic and technical advice to support the application. Actual costs are expected to be highly variable based on the scale of operation and level of detail sought by councils and could range from internal advice through to detailed external expert economic and technical advice (\$20,000+). The intention is to provide guidance on the level of information required to meet the tests and technical

support from EECA to help ensure information and compliance costs are reasonable for applicants.

- 55 Where a consent is granted, the proposal will set the maximum duration of consent (i.e. no longer than 5-10 years). This signals a transition which will be reflected in investment decisions. It will also allow the application to be assessed in light of technology changes and emission budgets and targets.
- 56 There will be no phase out date for other fossil fuels. However, we are proposing to insert a 2026 review clause into the instruments, requiring the Government to review the treatment of other fossil fuels (particularly natural gas), in 2026. At this time it may be appropriate to set a phase out date for natural gas, or other fossil fuels.
- 57 National direction could also include a requirement for regional councils to review all existing consents for fossil fuels discharges by a certain date (e.g. 2035). This would provide a means to ensure that consent holders with long-term consents are taking all reasonable steps to reduce their GHG emissions through preparing a GHG emission plan and adopting relevant BAT, while ensuring the activity remains viable.

#### **Guidance on assessing GHG emissions (direct and indirect) from non-industrial emissions**

- 58 Developing non-statutory guidance on how to assess resource consent and plan change applications involving GHG emissions (direct and indirect) from other sources under the RMA is also an option for consultation. The guidance could include:
- 58.1 Clarifying that the cumulative effect of GHG emissions on climate change (regardless of the scale of the discharge) is a relevant effect to consider under section 104(1)(a);
- 58.2 Guidance on how to consider proposals to offset the GHG emissions of an activity by proposing measures that have a positive effect on climate change (for example, afforestation) under section 104(1)(ab);
- 58.3 Guidance on how wider climate change policies and targets (including the emissions reduction plan prepared under the CCRA) should be considered as an “other relevant matter” under section 104(1)(c);
- 58.4 Clarifying the extent to which the ‘permitted baseline’ should be considered when assessing applications with GHG emissions under section 104(2)
- 58.5 Guidance on how to consider the ‘net’ GHG emissions from a proposal.
- 59 The guidance could also cover how to “have regard to” the relevant emissions reduction plan when preparing policy statements as well as how to consider GHG emissions when assessing plan change applications involving land-use change and development with long-term GHG implications. This guidance

could assist local authorities to consider emissions when making decisions about infrastructure and transport proposals, for example.

### Consultation process

60 We propose that public consultation take place over a six week period during April – May 2021. Consultation would follow the ‘alternative’ process under section 46A(3)(b) of the RMA which is led by officials (rather than a Board of Inquiry). This will involve giving the public and iwi authorities notice of the proposal and providing them with opportunity to make a submission on the proposal. The proposal has been developed with input from a technical advisory group to test the proposal and provide confidence it will achieve the intended outcomes. The proposal has also been informed by targeted engagement with council stakeholders.

### Engagement with iwi/Māori

- 61 The RMA requires iwi authorities to be notified of any proposed national direction and be provided with adequate time and opportunity to make a submission.
- 62 An engagement strategy for iwi/Māori is currently being finalised. We are working to ensure our engagement approach aligns with the Government’s expectation for engaging with Māori and strengthening the Māori Crown Relationship.

### Stakeholder engagement

63 The consultation will be designed around the attached discussion document and will be supported by targeted engagement with key stakeholders including:

63.1 local authorities across the country, particularly those regions where there is a significant concentration of industry with a reliance on fossil fuels,

63.2 organisations representing the industrial sector, and

63.3 communities based around industrial areas who may be impacted by the regulation.

64 Stakeholders are likely to have mixed views about the proposed national direction. Feedback from councils to date has generally been supportive of national direction on industrial GHG emissions to support their decision-making. In particular, they expressed concerns around the potential for inconsistencies litigation without any central government direction. Councils have also generally been supportive of national direction with nationally consistent rules that avoids the need for them to develop their own plan changes.

65 Stakeholders from the industrial sector are likely to hold varying views across the proposals. We expect broad support from many on banning new coal-fired

boilers. This is due to various business commitments to-date on no new coal and this policy approach being signalled by the Government for some time. There is more likely to be concern around the phase-out requirements, and the treatment of gas in proposed national direction. We also expect differing views on the scope and applicability of best available technologies for specific sites.

### **Financial Implications**

- 66 The Ministry for the Environment has used baseline funding for the development of this national direction instrument.

### **Legislative Implications**

- 67 This consultation has no direct legislative implications.

### **Impact Analysis**

- 68 The discussion document functions as an interim Regulatory Impact Assessment. A combined Quality Assurance panel of the Ministry for the Environment and Ministry of Business, Innovation and Employment has reviewed the discussion document and confirms the level of information provided meets the quality assessment criteria, for this stage of the process, and is likely to lead to effective consultation on the proposals. The consultation will provide information where there are currently limits or uncertainty and later support the delivery of a Regulatory Impact Assessment to inform subsequent decisions.
- 69 A Regulatory Impact Statement will be provided following public consultation when seeking Cabinet policy decisions on the proposals to enable the national direction instrument to be drafted.

### **Climate Implications of Policy Assessment**

- 70 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply at the consultation stage.
- 71 The CIPA requirement will apply to this proposal as a key objective is to reduce greenhouse gas emissions and the final option is likely to have a significant emissions impact. The CIPA team will work with officials developing the proposal to assess the emissions impacts of policy proposals as they are advanced – as appropriate – at a later date.

### **Human Rights**

- 72 There are no human rights implications arising from this paper.

### **Consultation**

- 73 The following agencies have been consulted: Ministry for Business, Innovation and Employment, the Energy Efficiency and Conservation



Authority, the Ministry for Primary Industries and the Ministry for Housing and Urban Development. The Treasury, Ministry of Transport, Department of Conservation and the Department of Prime Minister and Cabinet have been informed.

## Communications

- 74 The attached consultation document will be published on the Ministry for the Environment's website with appropriate context. Officials will email known potentially interested parties to inform them of consultation. Local government and iwi authorities will be notified as per the process set out under the RMA.

## Proactive Release

- 75 We intend to proactively release this paper when public consultation begins in April 2021.

## Recommendations

The Minister for the Environment and the Minister for Energy and Resources recommend the Committee:

- 1 **note** that in July 2020, Cabinet agreed that national direction be developed to support amendments to the RMA that reintroduce climate change mitigation into the remit of local government decision-making [CAB-20-MIN-0051.01];
- 2 **note** that these national direction instruments will be key tools in supporting the decarbonisation of process heat, which is critical for the first set of emissions budgets under the Climate Change Response Act 2002;
- 3 **note** the Climate Change Commission's draft recommendation 7a. is to urgently introduce regulation to ensure no new coal boilers are installed;
- 4 **agree** to prohibit the installation of any new coal-fired boilers for low and medium temperature process heat;
- 5 **agree** a preferred option in the discussion document is to phase out coal-fired assets for low and medium temperatures by 2037;
- 6 **note** the Climate Change Commission's draft recommendation 7b. is to introduce measures to help reduce process heat emissions from boilers by 1.4 Mt CO<sub>2</sub>e over 2018 levels by 2030 and by 2 Mt CO<sub>2</sub>e by 2035, which corresponds to the Commission's draft path where coal is phased out in food processing by 2037, and natural gas use declines;
- 7 **note** the Climate Change Commission's draft recommendation 9c. is to prohibit new natural gas connections by 2025 and earlier if possible, and this applies to residential and commercial buildings, not industrial gas use;
- 8 **note** having preferred options in the discussion document that prohibit new natural gas installations or having a phase out for natural gas in the industrial sector could have implications for security of supply in the electricity system as it transitions;

- 9 **note** the Minister of Energy and Resources is conducting work with industry on the managed phase-out of fossil fuels in the energy system;
- 10 **invite** the Minister of Energy and Resources to report back by the end of 2021 on managing the phase out of natural gas in the energy system, and on opportunities to repurpose natural gas infrastructure for renewable gases;
- 11 **agree** to review national direction for natural gas-fired boilers and networks in 2026;
- 12 **agree** that a preferred option in the discussion document is the requirement for industrial sites to prepare and implement GHG emissions plans to encourage the uptake of low emissions best practices, and that best practice guidance will be developed by EECA and incorporated by reference into the instrument;
- 13 **agree** to release the attached discussion document to support public consultation over April – May 2021 on proposals for national direction on industrial greenhouse gas emissions (phasing out fossil fuels in process heat);
- 14 **agree** to allow the Minister for the Environment and Minister for Energy and Resources to make minor editorial, design, technical and minor policy changes to the discussion document as needed prior to publishing;
- 15 **note** that these national direction instruments will be designed in a way that allows them to be transferred into the national planning framework that is currently under development through resource management reform;
- 16 **invite** the Minister for the Environment and Minister for Energy and Resources to report back to Cabinet by mid-2021 with final policy recommendations.

Hon David Parker

**Minister for the Environment**

Hon Megan Woods

**Minister of Energy and Resources**