

# Hon Pete Hodgson

**Minister of Energy, Minister of Fisheries, Minister of Forestry,  
Minister of Research, Science and Technology, Minister for  
Crown Research Institutes, Small Business**



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## Speech Notes

**Embargoed until delivery, 6.00pm today.**

### Pathways for renewable energy

*[Address to a New Zealand Wind Energy Association seminar, Turnbull House, Wellington]*

Good evening.

When I spoke to your annual conference in May last year the Energy Efficiency and Conservation Act had just been passed. EECA was being revamped as a stand-alone Crown entity. The Power Package and the first draft of the National Energy Efficiency and Conservation Strategy were still ahead of us.

So a lot has been happening.

The Power Package legislation is now with a select committee. EECA has been busy and I released the draft National Energy Efficiency and Conservation Strategy last week.

This strategy is New Zealand's first ever. That in itself is shameful. But it's done. It's out. The website is extremely busy. The media coverage has been good. The interest by the various sectors has been rewarding. And the road show is just beginning.

As I did last year, I want to acknowledge Jeanette's contribution. She was responsible for the legislation behind the draft strategy and has been closely involved throughout its development.

The Greens and the Government will have a lot to do with one another on energy issues for a while yet. Jeanette and I both had our minds on the demand side of energy well before it became remotely fashionable. Thanks to her we at last have an opportunity to put that vastly under rated aspect of energy policy to the fore.

But tonight I'm here to talk about the supply side. About targets for renewable energy.

This seminar is timely. Mandatory renewables targets are an important part of the policy debate about how we achieve a progressive transition to renewable sources of energy. The debate on mandatory targets will be particularly intense over the next six months. That is not a long time, so it is good to get started so soon.

I'd like to thank the Association for sharing the work that it has funded on mandatory targets. It has been a valuable input to the draft strategy process.

Alistair has suggested I take it for granted that everyone here has read the draft strategy, so I won't recite it.

It does include a commitment to investigate whether there should be a target for energy from renewable sources – and if so, what that target should be.

There are other measures to encourage renewables, of course, and I can talk about them later if need be.

I'm aware of a number of variants of mandatory renewable energy targets in electricity sectors around the world.

In Australia the electricity retailers are under obligation to increase the national renewable electricity share by 2 percent by 2010.

In the UK, the onus is on the electricity suppliers.

In Germany they have a system that isn't a mandatory renewables target but has much the same effect. Electricity companies are required to purchase renewable electricity and pay a premium for it.

Of course in Australia, even with the additional 2 percent, the proportion of electricity generated from renewable sources will still be much lower than what we already have in New Zealand.

Australia has about 11 percent renewable generation. The share here is declining, but is still about 70 percent.

Mandatory renewables targets have mostly been applied to electricity, but they could also be applied to sources of industrial heat or to transport fuels.

Obviously the Wind Energy Association's interest is in their application to electricity - but there are important issues around the appropriate scope of a mandatory renewables target in New Zealand.

Although New Zealand is starting from well ahead of most other countries in its use of renewable sources of electricity, I'm very aware that electricity generation is one of New Zealand's fastest growing sources of carbon dioxide emissions.

I'm also alert to the importance of reducing our exposure to increasing prices for imported oil.

We want to achieve our objectives at least cost. This means that we have to ensure that those sectors and firms that can most cost-effectively contribute are enabled and encouraged to do so.

For this reason, any measures that we use to encourage the use of renewable sources of energy should not be limited to a single renewable resource such as wind.

Equity issues would also arise if the Government were to champion measures that deliberately gave one industry a clear commercial advantage.

As a matter of good public policy, we will be seeking to achieve a transition to renewable energy supplies in the most cost-effective and least commercially-distorting way.

The officials working on a renewables target and mechanisms will be consulting with stakeholders such as the New Zealand Wind Energy Association. I can assure you that the particular version of a mandatory renewables target you have been advocating will be examined carefully.

But I do need to make the point that while increasing electricity generation from renewables may be part of our progressive transition to renewable sources of energy, it is unlikely to have the same significance as it has in countries such as Australia or the UK.

In part, this is because New Zealand starts so much further along the path of generating electricity from renewable sources. But it is also because our greenhouse gas emissions from thermal electricity generation are less significant than those of countries like Australia and the UK.

Our biggest issue is emissions from the agricultural sector, which make up about 55 percent of total emissions compared to 7 percent from electricity generation.

True, emissions from thermal generation have been growing over the past decade. They've gone from roughly 4 percent to roughly 7 percent.

At the same time, emissions from the transport sector have grown from about 11 percent to about 15 percent of all emissions.

So there are other major sectors of the economy where the challenge of reducing emissions is as big or greater than it is in electricity.

I suspect that liquid biofuels and then hydrogen – made first perhaps from natural gas and then from electricity – will become very important in the wider, and longer term, greenhouse gas picture.

So if there is a role for a mandatory renewables target, maybe it needs to have wider coverage than just the electricity sector.

Perhaps in the longer term, the really important contribution of renewable electricity in New Zealand will be to manufacture the hydrogen that is substituted for fossil fuels in the transport sector.

That demand for hydrogen from renewable sources is not with us yet. But the need to ensure that the renewable electricity industry is in a position to meet it when it comes will be part of the investigations relating to a renewables target.

The other main point that I want to make tonight is that a mandatory renewables target is not a silver bullet, even for the wind industry.

It would help overcome many of the barriers that wind energy faces, but it would not overcome them all.

Mandatory renewables targets in other countries, such as Australia, create a demand for electricity from renewable sources, but they do not, and cannot, guarantee a supply.

A mandatory renewables target is likely to improve the economics of a wind project, but by itself, it will not help in gaining resource consents for wind sites.

As I'm sure you know, Australia and the UK have recognised the limitations of what mandatory targets can achieve by building in an escape clause, allowing payment of a penalty per kilowatt-hour if the target cannot be reached at less cost than the penalty.

Nor is a mandatory renewables target the only way to address a number of the barriers to an increased uptake of wind energy. Factors such as the high up-front capital costs and the cost of back-up capacity could be tackled through other measures.

Alternative ways to encourage renewables are included in the Draft Strategy, as I mentioned at the beginning.

We can talk about those if you like.

But, like I said, I'm assuming you have read and internalised the Draft Strategy, so I won't go through the options.

Instead I'll invite comments or questions - and if President Bush is at the top of your mind, that's fine by me.

**Graeme Speden, press secretary 04 471 9707 / 025 270 9055**