

Hon Pansy Wong

Associate Minister of Energy and Resources



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Speech

Good morning. I'd like first to offer my thanks to the Gas Industry Company for inviting me to speak to you today.

It is an obvious observation that the profile of the gas industry has been on the back burner for the last decade.

But times have changed, because the National-led Government is one of vision and of action – we understand that gas is a critical aspect of New Zealand's energy mix and that the industry must move forward to truly prosper.

There is a shared vision within the gas industry to see it expand and for gas to become a choice to every New Zealander as a means of efficient and affordable energy.

There is much to catch up on for the gas industry and it is crucial that we all work together now to achieve this vision and realise the full potential of gas.

To realise this vision, we must also have action and I am determined to see the industry blossom to the benefit of New Zealanders.

The National-led government believes that gas has an important part to play in New Zealand's energy environment and part of my role as Associate Minister of Energy and Resources is to support and encourage the continued

growth of the gas industry.

The opportunity and challenge is there for the gas industry to be known and understood as an important fuel source in New Zealand.

Gas is the second largest component of New Zealand's primary energy supply after oil. It is also the second largest source of energy for electricity generation, behind hydro.

I grew up in Hong Kong, where direct gas use has been common since the late 19th century and where gas is a convenient and affordable energy option for household heating and cooking.

Hence my passion for the growth of gas use in New Zealand and appreciation of its importance to consumers and to the economy.

The Gas Industry Company plays an important role in promoting efficient and competitive gas markets and also administering regulations to ensure the industry remains vibrant and accessible.

This year marks the fifth anniversary of the creation of the co-regulatory model of gas governance.

In my view, the Gas Industry Company has evolved over the past five years and is not “just a regulator”, but rather a representative industry body that can provide a leadership role for the gas sector.

From where I stand, the most significant achievements of Gas Industry Company to date have been the development of new switching and downstream reconciliation rules and the development of critical contingency regulations.

These are critical to a well functioning retail market and robust gas network.

I am aware that there are some bedding down issues involved with these arrangements and that some further tweaks may be required to fully meet the public policy objective.

Nevertheless, these have resulted in a significant improvement on past practices and Gas Industry Company should be commended for this.

It may have taken the Gas Industry Company five years to develop the switching and downstream reconciliation rules, but the gas safety regulations have managed to take 10 years.

At long last, the exposure draft of the gas safety regulations will be available for you to review by the end of the month and I look forward to hearing your feedback.

This review period is your final opportunity to consider the technical accuracy of the regulations and your chance to ensure that the regulations are workable.

Given the importance and many uses of gas in New Zealand, it is vital that we get this right. It is also important that we do it quickly to allow the industry to move forward.

That is why I am determined to see these regulations implemented by the end of this year.

It has taken 10 years for these regulations to take shape, which is far too long. From now on I will do my best to ensure the bureaucracy and regulatory processes can be harnessed to be as efficient as possible.

So far, our record for being action orientated is good.

One of my first undertakings on assuming Ministerial responsibility for Gas Industry Company was to appoint the gas Rulings Panel.

This should help resolve many of the compliance issues that have been brought to my attention in the implementation of the switching and downstream reconciliation rules.

The lost decade is over and once these regulations are finalised, we can focus on the bigger picture in the development of the gas industry in New Zealand.

Gas is a central part of our energy supply mix. For example, last year gas provided 21 percent of the country's primary energy supply, and a quarter of the country's electricity generation was sourced from gas.

It is critical that the gas sector is able to grow and develop because - as the marginal source of electricity generation - the price of gas largely determines the price of electricity.

You will be aware that the government is currently redrafting the New Zealand Energy Strategy.

The revised strategy is likely to refocus the emphasis from the energy sector's response to climate change to energy being a source of New Zealand's competitive advantage.

However, the government intends to retain a target to reach 90 percent of electricity from renewable sources by 2025 as long as this goal does not impact security of supply.

This means gas will continue to play a critical role in providing security, versatility and stability in the delivery of electricity.

It will also continue to play a critical role as a future source of water and space heating and cooking.

Given its importance, there is a need to discover and bring on-stream new gas production to ensure that prices remain competitive and New Zealand's future energy demands are met.

New Zealand's geological basins are largely unexplored and there is a significant possibility of more gas being found in future.

There is some belief that New Zealand's gas supply is running out. However, we know that we are reasonably secure for the short to medium term and, according to current projections, New Zealand has enough gas to meet forecast demand through the next decade.

The effect of future gas finds on New Zealand energy use is difficult to forecast and will depend on the size of the discoveries and on their location. While small discoveries may sustain supplies to current users; very large finds may prompt export initiatives.

The good news is that the Minister of Energy and Resources, Hon Gerry Brownlee, is committed to exploring this potential.

This year the Government has provided funding of \$5.4 million for seismic studies and has committed a further \$20 million through 2010 and 2011. We have also announced the rollover of the tax exemption for non-resident offshore rig operators and seismic vessels until 2014.

We are committed to allowing the gas industry to grow and we have also introduced the Infrastructure Bill, which will make amendments to several Acts – including the Gas Act – to facilitate infrastructure development by removing unnecessary barriers and improving the consistency of regulatory arrangements.

In particular, the Infrastructure Bill calls for a code of conduct, which will address some of the concerns that the industry faces.

In order to improve the arrangement of access by utility operators, the Act establishes a framework for a national code of practice governing how utility operators, and transport corridor managers coordinate their activities.

It imposes an obligation on all utility operators and transport corridor managers to abide by the code unless other parties agree.

For example, some of you have told me of not being able to go to sleep at night without worrying about damaged gas pipes, caused by people digging up the roads.

There is reported to be more than 1000 incidents annually and I encourage you to make submissions to the Bill.

The Select Committee is due to report back by the end of November, with the Bill due to be passed into law by the end of the year.

The Gas Act and the Government Policy Statement on Gas Governance lay out the Government's objectives and outcomes for the gas sector.

At their core, these objectives and outcomes are about promoting competition and well functioning markets.

The Government Policy Statement sets out tasks the Government sees as important to improve the functionality of our gas markets.

We expect Gas Industry Company and the rest of the industry to continue to work collaboratively to deliver on these outcomes in a timely manner.

The key challenge for the gas industry continues to be the need to improve gas transmission and wholesale arrangements to ensure that our gas networks and markets can handle the transition from a long-term, stable gas supply to a more diverse, variable supply.

I note the work that Gas Industry Company is currently undertaking on pipeline balancing and I look forward to seeing clear recommendations on this work stream.

Another major challenge for the industry is to accept that in the contemporary society, consumer rights and satisfaction is paramount.

Any industry that aspires to grow needs to take into consideration catering for consumers' feedback and complaints.

It is for this reason that the Government Policy Statement calls for the development of a single dual fuel complaints scheme.

I have noted the recent events regarding the consumer complaints resolution scheme and remain positive that the industry players can come together to establish an independent industry-led scheme - rather than having a Government-regulated dispute resolution system.

In all of this work, it is important that other elements involved in improving retail and consumer markets are also addressed.

This involves ensuring that all consumers have access to supply contracts on

reasonable terms and that the current provision of gas metering, pipeline and energy services is efficient.

I note that for various reasons many of these work streams have not been progressed and delivered to the earlier deadlines set by Gas Industry Company.

But I am pleased to say that a constructive meeting between the Board and myself has resulted in an agreed set of timelines.

I am keen to see that the basic elements outlined in the Government Policy Statement are completed.

This will then improve competitive outcomes, timely investment and the efficient use of resources for industry to compete according to rules which are accepted and understood by all.

I would like to call on all parties to continue working to ensure the co-regulatory regime succeeds as intended.

This is your industry body, after all, and it is up to you to ensure that it succeeds.

Thank you once again for the invitation to speak to you today. I trust you will have an interesting and rewarding conference.