

24 June 2021

To: Andrew Knight
Gas Industry Company
PO Box 10-646
Wellington 6143

Dear Andrew,

Gas Market Settings Investigation

emsTradepoint Limited welcomes the opportunity to respond to the Gas Industry Company's consultation on its Gas Market Settings investigation.

emsTradepoint is a commodity exchange designed to provide anonymity, transparent pricing and transactional certainty to physical energy markets such as natural gas and NZ carbon units.

Gas currently plays an important role in ensuring security of supply in the electricity market. The flexibility gas provides is also a valuable tool for transitioning to a net zero carbon economy.

In Appendix A, we have responded to the Gas Industry Company's specific consultation questions.

Yours faithfully



Quintin Tahau

General

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Appendix A

Gas Market Settings Investigation 2021 Ltd

Submission prepared by: **emsTradepoint**

| Question | Comment |
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| <p>Q1 Do you agree with our characterisation of the current role of gas in New Zealand?</p> | <p>Yes.</p> |
| <p>Q2 Do you have any comments in relation to the gas supply and demand outlook?</p> | <p>We agree with comments based on Figure 1, that mass market users and electricity generators will not be compromised by the current gap between potential gas demand and expected supply.</p> <p>Recent actions of a major gas producer and a large industrial consumer to provide winter gas to a major generator is an example of collaboration within the industry to ensure security of supply for the electricity market.</p> |
| <p>Q3 Do you agree with our characterisation of the commercial outlook for gas?</p> | <p>We are in general agreement with the characterisation of gas supply outlook. However, we are more confident re timing of an easing in the current tight conditions.</p> <p>3.2 Commercial Outlook</p> <p>Timing of remedial work on Pohokura now appears a little</p> |

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| | | <p>more certain with OMV and Todd announcing a planned drilling of an 'extended reach' well in 2Q 2022. This coupled with promising progress on the Maui A platform and rising production at other fields gives us more confidence that tight conditions will ease earlier than 2023-24.</p> |
| Q4 | <p>Have we captured the issues fairly and accurately? Have we missed anything?</p> | <p>We broadly agree you have captured the issues fairly and accurately. We are at the start of a transition which will bring change, some of which may be unwelcome to the sector.</p> <p>We look forward to the conclusion of the Information disclosure workstream.</p> <p>Along with many other gas participants, we would prefer to see a greater proportion of gas being traded through the secondary market, thereby increasing the liquidity of the system and providing additional transparency of pricing.</p> <p>Increased levels of flexibility in the gas supply remains paramount as New Zealand navigates its way through unpredictability in transitioning to a net zero carbon economy.</p> <p>We have no comment on other aspects.</p> |
| Q5 | <p>What are your views on the potential solutions stakeholders have raised? Can you share any more</p> | <p>All the solutions outlined have some merit, there is likely a mix of solutions instead of a single solution, some of which will be</p> |

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| | <p>detailed information to help inform us on how feasible or effective they might (or might not) be?</p> | <p>technology based solutions that are currently under development.</p> <p>There was an in-depth analysis on the potential role of LNG in New Zealand. Potential government funding to investigate such a concept is worth considering, but if LNG is only going to replace imported coal then funding for such a study could be better directed elsewhere. If LNG could replace imported coal and be part of the solution to manage dry year risk, then further investigation is warranted.</p> |
| Q6 | <p>Are there any other potential solutions?</p> | <p>The system may benefit from a greater proportion of gas being traded through the secondary market, thereby increasing the liquidity of the system and providing additional transparency of pricing. This additional transparency and liquidity may support decision making around a range of proposed solutions.</p> |
| Q7 | <p>Do you agree that there is potential in a set of solutions linked to providing greater confidence to support the required investment in gas supply and flexibility, and that there is unlikely to be a single solution?</p> | <p>Yes, we agree there is likely to be more than one solution or a set of solutions.</p> |
| Q8 | <p>What are the most important next steps to ensure that</p> | <p>It is vital that on-going maintenance and remedial work</p> |

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| <p>gas can support security of supply in the electricity market and that major users have sufficient certainty/transparency about gas supply for their operations during the transition?</p> | <p>currently underway and planned by gas producers continues. Extending the life of our aging gas fields not only supports security of supply, it also adds much needed flexibility which we currently lack.</p> <p>Fundamentally the market needs policy certainty around the future of gas. The industry needs timely confirmation that gas is required for the transition to a lower carbon economy.</p> <p>As mentioned in responses to Q4 and Q6, a way to encourage more certainty and transparency could be to encourage more participation in the secondary market. Long-term contracts are important for wholesalers to ensure securing future investment. However, having a reliable and liquid secondary market will provide the flexibility participants may need in a changing energy environment. In addition, this could help send clearer price signals to the market and a more established forward price curve. Transparent forward prices are useful for forecasting business activities and budgeting.</p> |
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