Gas Industry Company
By email: consultations@gasindustry.co.nz

24 June 2021

Consultation Paper – Gas Market Settings Investigation

Mercury welcomes the opportunity to comment on the Gas Industry Company's consultation paper. We also appreciated the opportunity to be interviewed prior to the paper being published. Our responses to the consultation questions are included in Appendix A.

Mercury is the third largest retailer by connection of reticulated natural gas in New Zealand with around 46,000 customers as at May 2021. Until 2015 we operated a gas fired thermal power station in Auckland. Mercury recognises that achieving New Zealand's emissions reduction targets by 2050 will require both significant electrification of the wider economy and for the electricity sector to transition toward 100% renewable electricity generation. Mercury agrees with the conclusions of the recent final report by the Climate Change Commission (CCC) that natural gas will be a critical fuel to ensure security of supply and generation flexibility to support renewables development while maintaining least cost electricity supply over the transition.

The consultation paper highlights there is significant uncertainty around the availability of natural gas supplies in New Zealand over the next decade and beyond depending upon a range of scenarios. Options to replace thermal fuels, particularly to provide the deep energy storage required to manage dry year storage risk in the electricity market and support future renewable expansion, are currently under consideration by the New Zealand Battery Project. Mercury agrees with the analysis of the CCC that entirely removing fossil generation by 2030 would impact New Zealand's balanced trilemma performance and the ability to achieve emissions reduction at least cost. There are no options in our view that could be reliably delivered to entirely decarbonise the electricity sector by 2030. Beyond 2030 there are a range of energy storage options and renewable fuels that could be considered to replace thermal fuels in the supply mix while managing the overall costs and risks to the New Zealand economy.

Providing greater policy certainty is the opportunity for a sustainable transition

The consultation notes that surveyed respondents felt there was limited predictability with respect to New Zealand's transition timing and the policy and regulatory frameworks for gas to support the transition to net zero carbon by 2050. We endorse the view of the CCC that an overarching energy strategy for New Zealand should be developed which was also identified as priority by respondents. Mercury has recently joined other industry participants in calling for an energy strategy[1] and welcomed the government's subsequent commitment to deliver an energy strategy for New Zealand.

One critical component such a strategy should consider is the advice of the CCC that the current 100% renewable target should be treated as aspirational and slightly reduced, reflecting the view that thermal support will be necessary beyond 2030 to ensure security of supply and general affordability. Mercury considers an energy strategy should also enable industry and government discussions on the range of potential mechanisms to improve certainty for investors and market participants around the role for gas in the transition to a low carbon economy.

[1] Backing the transition to a thriving low carbon economy for Aotearoa New Zealand (21 May 2021) https://issuu.com/mercurynz/docs/industry_open_letter_on_decarbonisation?fr=sYzhiMDE4MTY2Nzk

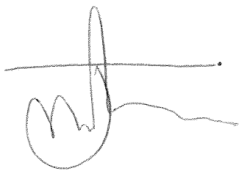
Mercury agrees with the view in the consultation paper that broadly the market and regulatory settings in both electricity and gas are working as intended to signal scarcity and maintain security of supply. Current market signals are leading to generation investment with around $2bn of capital committed to new renewables. However, we also recognise that high gas and wholesale electricity prices are resulting in significant challenges for consumers to meet their energy needs cost effectively and that greater certainty in near term would be valuable as New Zealand transitions to a low carbon economy.

The consultation paper highlights a range of measures that could be considered to provide greater certainty to the gas sector around how gas generation and supply assets could continue to operate to support decarbonisation, while maintaining security of supply and overall affordability. Mercury supports consideration of whether alternative policy mechanisms can compliment existing electricity market settings, for example the proposals recently put forward for a transitional reserve scheme for gas generation assets. However, interventions into the current Energy Only Market design through capacity mechanisms need much more careful consideration as the evidence suggest they may not deliver improved availability and come at higher costs to consumers[2]. These are areas Mercury would endorse being addressed through an energy strategy process. Given the pressing need for greater certainty discussions around complimentary market measures should be fast-tracked in advance of a wider ranging energy strategy and could form an input into that final document. Mercury supports the government and electricity and gas sectors working constructively together to make progress on this issue.

Mercury has also been a consistent proponent of enhanced market information and we have welcomed the active engagement with Gas Industry Company on its workstreams over the past two years and the improvements that have been delivered. We look forward to working with the sector on more transparent reporting and continuing this useful engagement.

If you have any questions on this submission, please contact me at nick.wilson@mercury.co.nz.

Yours Sincerely,



Nick Wilson

Manager Regulatory and Government Affairs

[2] Concept Consultating (Feb 2020) Capacity markets and energy-only markets - a survey of recent developments https://www.concept.co.nz/uploads/1/2/8/3/128396759/eom_cm_design_-_final.pdf

Appendix A. Responses to Consultation Questions

#	Question	Answer
1	Do you agree with our characterisation of the role of gas in New Zealand?	We agree with the characterisation of gas as presented in the paper.
2	Do you have any comments in relation to the gas supply and demand outlook?	We agree with the analysis that there is significant uncertainty around the availability of natural gas supplies in New Zealand over the next decade and beyond depending upon a range of scenarios.
3	Do you agree with our characterisation of the commercial outlook for gas?	Yes. We agree that that current uncertainty is resulting in challenges for long term capital allocation to the sector which has implications for ongoing investment.
4	Have we captured the issues fairly and accurately? Have we missed anything?	Yes – the paper provides a useful characterisation of the isssues as well as challenges and opportunities.
5	What are your views on the potential solutions stakeholders have raised? Can you share any more detailed information to help inform us on how feasible or effective they might (or might not) be?	Broadly we are supportive noting our comments in the cover letter. Careful consideration needs to be given to interventions in the Energy Only Market model to ensure that signals to invest continue. Mercury continues to support greater disclosure of gas related information to the wider market.
6	Are there any other potential solutions?	We consider the paper captures the main areas of action.
7	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?	We agree there is no single solution. An overarching energy strategy would be valuable to provide greater clarity around the transition to higher proportion of renewable energy in the economy including the various mechanisms to support this outcome.
8	What are the most important next steps to ensure that 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?	The most valuable first step would be for the government, electricity and gas sectors to work collaboratively on what a transition pathway for existing gas infrastructure assets might look like that supports security of supply and general affordability.