



24 June 2021

Submissions  
Gas Industry Company

By email: [consultations@gasindustry.co.nz](mailto:consultations@gasindustry.co.nz)

## **Gas Market Settings Investigation: Consultation Paper**

Meridian welcomes the opportunity to submit on the Gas Industry Company's **(GIC)** *Gas Market Settings Investigation Consultation Paper*. Nothing in this submission is confidential.

Meridian would like to acknowledge the work the GIC commissioned from Concept Consulting. The report provides helpful insight on the outlook for gas supply and demand.

Meridian is primarily interested in the role that Gas plays as a fuel for electricity generators. While Meridian has chosen to generate electricity from 100 percent renewable sources, we do acknowledge the role that flexible gas generation plays in the wider electricity market, particularly to ensure security of supply when hydro lakes are low.

### **Importance of an Energy Strategy**

The Climate Change Commission's final advice to Government recommended "setting a target so that 50% of all energy consumed comes from renewable sources by 31 December 2035. Consideration should also be given to replacing the target for 100% renewable electricity with achieving 95% - 98% renewable electricity by 2030." This indicates an ongoing future role for gas generation for some time that in turn reflects the high price to decarbonise the last few percentage of non-renewable electricity generation as well as the importance of security of supply, electricity prices, and emissions reductions across the wider economy.

Meridian agrees that the role of gas across the energy system needs to be considered by the Government and regulators. We fully support the Climate Change Commission's recommendation that Aotearoa needs an overarching Energy Strategy. This would provide greater clarity and coordination on priority initiatives to deliver emissions reduction across the entire economy and could help address key issues such as the role of non-renewable energy resources in managing a just transition to a low emissions economy. Meridian would like to see such a strategy developed by the Government collaboratively alongside all stakeholders in the sector. We think the Government should first take this step to develop an overarching Energy Strategy and that this should occur before the GIC or any other industry body or regulator considers detailed solutions.

In the meantime, we suggest a core issue for the GIC should be how best to ensure gas supply arrangements can become increasingly flexible to meet the needs of consumers during the transition to a low emissions economy. Recent arrangements put in place by gas users show that the existing commercial incentives in the market do value and allow for flexibility when required and that the electricity market functions well to ensure security of supply. For example:

- Genesis and Methanex have agreed on a short term gas supply arrangement whereby Genesis purchases between 3.4PJ and 4.4PJ over winter, as well as a Winter / Summer swap for 2022 and 2023.<sup>1</sup>
- Contact has entered a gas tolling arrangement with Nova whereby Contact purchases 3.6PJ to run through the more efficient Taranaki Combined Cycle plant during winter 2021.<sup>2</sup>

### **Availability of gas market information**

Meridian has long supported more comprehensive and timely information disclosure in relation to the gas market. Improving the provision of information about the gas market is a low risk, high reward option that the GIC should consider now and something that the Minister asked for several years ago – it need not wait for the development of an overarching Energy Strategy.

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<sup>1</sup> <https://www.genesisenergy.co.nz/about/media/news/genesis-and-methanex-work-together-to-improve-ener>

<sup>2</sup> <https://www.nzx.com/announcements/369664>

## Scope of the GIC's investigation

In sections 5.10 and 5.11 of its consultation paper the GIC seems to suggest that it could consider advising the Minister on:

- “a reserves / capacity market for energy” to “ensure that fuel (including thermal fuel) was available when electricity supply was constrained”; and
- “full or partial [government] investment / ownership / buyer of last resort for gas production, flexibility (storage or pipelines), or *electricity generation*” (emphasis added).

The GIC's mentions of capacity and reserve markets and government investment in electricity generation are very brief but potentially raise issues of considerable significance stretching beyond the gas market. It is unclear whether the GIC does in fact intend to comment generally and broadly on these issues and / or otherwise report to the Minister on electricity market settings. As we read the Minister's letter the matters the GIC has been asked to comment on relate to current settings in the natural gas market.

Any serious consideration of reserves or capacity markets, or of government investment in electricity generation would be a significant undertaking. Extensive thinking has been done on both topics in the electricity market context. To give but a few examples, the New Zealand Battery Project is dedicating significant resources to the question of government investment in electricity generation. Similarly, the Ministry of Business, Innovation and Employment (**MBIE**) has considered and consulted on capacity and reserve market design questions in the discussion document *Accelerating renewable energy and energy efficiency*.<sup>3</sup> Concept Consulting has also looked in detail at capacity and reserve markets and concluded that New Zealand should focus first on improvements to the current energy only market rather than complete market redesign.<sup>4</sup>

Meridian queries whether it is appropriate for the GIC to consider and report to the Minister on these issues as they impact electricity market settings. Legislative and regulatory settings for the electricity market fall within the jurisdiction of MBIE and the Electricity Authority.

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<sup>3</sup> <https://www.mbie.govt.nz/assets/discussion-document-accelerating-renewable-energy-and-energy-efficiency.pdf>

<sup>4</sup> Concept Consulting *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](https://www.concept.co.nz/uploads/1/2/8/3/128396759/eom_cm_design_-_final.pdf)

Please contact me if you have any queries regarding this submission.

Yours sincerely

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the left.

Sam Fleming  
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