



25 June 2021

Gas Industry Company
Wellington

Via email - consultation@gasindustry.co.nz

Re: Submission on Gas Market Settings Investigation Consultation Paper

Thank you for the opportunity to comment on this paper. Background information on NZ Steel is provided in Appendix 1.

NZ Steel appreciates the work GIC has done in identifying a wide range of issues that impact those involved with the gas industry in New Zealand. This initial work has been completed expeditiously and the findings presented succinctly and clearly.

What is important is the conversations yet to be had within the Energy sector, including the policy analysts and policy makers, digging deeper into the factors identified in the paper and how these impact on the potential solutions you have outlined.

There is a clear need for joined-up thinking mindful of the requirements of those at the business end of natural gas, through to the policy makers cognisant of the wider implications for New Zealand. NZ Steel continues to advocate for a National Energy Strategy¹.

NZ Steel has had an opportunity to view and comment on draft submissions from industry groups to which we are affiliated². We commend to you the wider comments in these submissions and include some specific responses to your questions.

Q1	Do you agree with our characterisation of the role of gas in New Zealand?
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Natural gas is essential to steel making and down-stream finishing processes. This is especially so for high temperature applications where other energy sources, such as electricity, cannot efficiently reach the required temperatures of greater than 1000 degrees Celsius. For some processes it is a non-substitutable feedstock.

¹ Refer submission to the Climate Change Commission <https://bluescopeltd.sharepoint.com/sites/CCCSUBMISSION>

² Major Gas Users Group, Major Electricity Users Group, Business Energy Council.

From a wider perspective, the focus of the overall report is short term and in part based around the Government policy on 100% renewable electricity by 2030. While perhaps outside the brief from the Minister, a wider perspective on the requirement for gas will be helpful. This includes:

- Recognition of the CCC modelling and recommendations
- Assessment of gas requirements:
 - Demand by long term hard to abate industries. The report focus is largely on petrochemicals.
 - Renewable electricity firming beyond 2030.
 - Commercial and residential demand beyond 2030, ideally with sensitivity analysis on changes of technology take-up rates beyond that modelled by the CCC.
- Assessment of the criticality of gas by sector and risks of shortages - social, economic, and political. A National Energy Strategy will help in highlighting the role of gas in supporting NZ's export and import substitution base and industries that generate economic activity in the regions as well as supporting high income, high skill occupations.

Q2

Do you have any comments in relation to the gas supply and demand outlook?

The analysis sets out what can be expected for the next decade. While this largely aligns with the understanding we have gained as to the current and on-going constraints, there remains significant doubts as to availability of a secure and affordable supply.

We don't believe enough emphasis has been put on the importance of diversity of both suppliers and supply sources. There is ongoing risk around supplier withdrawal from the New Zealand market, and physical risk as to failure of a field and/or equipment; both situations that have been experienced on several occasions in the last three years.

The stance in the report placing reliance on the petrochemical sector to underpin investment is concerning and misses the importance of the demand from other sectors. This includes:

- Those transitioning from coal to gas as an interim measure to reduce greenhouse gas emissions by recognising that a move from coal to biogas or electricity may not be feasible for some years.
- Ongoing demand from high temperature process heat users such as NZ Steel
- Wider use within the commercial residential sectors

Of key importance to the supply and demand equation is business confidence in the policy setting mechanisms. We agree with page 16 of the report which states "Upstream parties must have confidence that there will be demand to service in the future before they will be prepared to commit to investment happening today."

Q3

Do you agree with our characterisation of the commercial outlook for gas?

We reference the introductory comments to section 3.2 of the paper³. For both the supply side and demand side large investments are required, generally with long-term financial returns involved.

Policy settings and certainty are important to secure approvals for these types of investment. This is increasingly an issue for those entities with off-shore owners who have choice internationally as to where to invest capital.

It would be helpful for the paper to record the disparity in size of users. The dominance of the market by Methanex and the two large thermal electricity generators, raises serious questions as to how the so-called market does and can function for the balance of gas consumption. The difficulty in obtaining bilateral contracts has been canvassed within the industry and media. In addition, the NZ Steel experience over the past 8 months is the market for traded gas is very small and illiquid even at severally elevated prices.

More work is required in terms of the outlook for natural gas in New Zealand without Methanex⁴ and greatly scaled back gas-fired generation.

A National Energy Strategy would assist in defining non-petrochemical demand forecasts in keeping with emission budgets and support the necessary upstream investment. A shortage of available and affordable gas has economic and other costs. A Government supported market initiative may be required to counter the limitations of the current market.

Q4	Have we captured the issues fairly and accurately? Have we missed anything?
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The paper has captured a multitude of issues but has not analysed these as to the degree of contribution to the current situation, and that leading up to 2030 and in subsequent periods. How all these issues interact into the macro picture for gas (natural and otherwise) as an important part of the future New Zealand, is the important next step as the industry and policy makers work towards the solutions.

3.2 Commercial outlook

Gas demand and supply in the period from 2022 to 2035 will be strongly influenced by decisions that are yet to be made. On the supply side, producers will be making decisions about whether to commit capital to produce from existing reserves and to convert undeveloped but identified (contingent) gas resources into reserves. Similarly, major gas users will be making decisions on whether to commit capital expenditure to allow future use of gas in their facilities.

Whether gas is available for all users depends on producers' willingness to invest more capital in supply-side assets. This will be influenced by customers' willingness to enter into contracts needed to underpin investment, particularly petrochemical customers due to their size and demand profile.

While such contracting processes have occurred smoothly in the past, there are added challenges in the current environment. In particular, some policies (e.g. the Government's response to the Climate Change Commission's advice due at the end of this month) are yet to be finalised and the timing and extent of the transition remain unpredictable. Gas sector participants may prefer to delay some decisions until the investment climate is clearer. This could have supply-side implications later in the decade depending on the scale of affected projects and associated lead times.

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⁴ As modelled by the CCC.

New Zealand’s greenhouse emission budgets introduced through the Zero Carbon Act extend to 2035. Analysis needs to cover that period as a minimum and should be cognisant of the longer term CCC modelling out to 2050.

Q5

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?

The potential solutions are all worthy of further consideration, but those that will make a real difference are reliant on investment which requires business confidence.

Some specific points:

- 5.5 regulatory framework for the gas pipelines.** The Commerce Commission Part 4 process will keep the pipeline owners whole as to revenue. An emerging issue though is how long this may be feasible with a declining gas take? Will increasing transmission and distribution costs contribute to declining requirement for and cascade failure of a reliable and affordable transmission service? Much seems dependant on alternative gases being conveyed in the pipeline and a patient investor as the technologies develop.
- 5.7 Support for long-term wholesale contracts.** While this suggestion steps outside the bounds of a functioning market, it is an option that should be explored but with caution. Current indications are that the number of OTC contracts are limited, and with lack of liquidity through emsTradepoint which only accounts for 4% of gas transacted⁵.
- 5.8 Increasing policy predictability.** NZ Steel endorses the development of a New Zealand Energy Strategy.
- 5.9 Potential contribution of LNG.** LNG will be the likely default supply for natural gas if New Zealand is unable to efficiently and effectively utilise the abundance (tapped and untapped) of gas reserves we have until a transition to alternative energy can occur. For some applications the properties in natural gas are an essential part of the process⁶ and likely cannot be replaced

Q6

Are there any other potential solutions?

Investor confidence is the key. This is both on the supply side and the demand side. Confidence is built on stable policies and regulatory frameworks. There remains uncertainty in several areas including decisions to be taken on the final CCC report, and ETS settings in that they that have particular impact on EITE businesses.

Q7

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?

⁵ Page 26 of the consultation paper.

⁶ For example the endothermic reaction required in the steel making process.

The starting point to building confidence is stable policies and regulatory frameworks recognising options are available to overseas owners as to jurisdictions in which to invest.

Q8

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?

- An acceptance by policy makers that natural gas is an important part of the transition to a net zero economy, and that gas is required for certain hard to abate processes until new technologies reach the stage of commercial viability.
- A policy and regulatory environment that builds confidence for upstream investment in the future of gas and transmission networks, and investment in long-life assets by downstream businesses.
- Support of the market mechanisms. Given the small market, and wide range in size of participants, this may be indirect through market information and monitoring, but may in some situations also require direct intervention to underpin upstream investment.

Ngā mihi,



Gretta Stephens
Chief Executive, NZ Steel and Pacific Islands

Appendix One - Background information on NZ Steel

1. NZ Steel was incorporated by the New Zealand Government in 1965, as part of a plan to utilise local natural resources to expand New Zealand's industrial base and ensure the country was not reliant on importing overseas steel.
2. For over 55 years, NZ Steel has been producing high quality steel products from its Glenbrook facility utilising local resources, including ironsand, limestone, coal and energy.
3. NZ Steel makes a substantial contribution to the lives and wellbeing of New Zealanders. NZ Steel contributes over \$600 million per annum to the New Zealand economy. It is also a significant employer in South Auckland, with more than 1,400 people employed directly in high-skilled, well-paid jobs. In addition, NZ Steel's operations result in the indirect employment of a further 2,500 people.
4. As a consequence, NZ Steel is a significant contributor to higher living standards for New Zealanders due to its broad contributions through manufacturing and employment. As an example, currently, 40-plus young Kiwis are in NZ Steel's apprentice and graduate programmes, with thousands participating in such programmes since the company's inception in the 1960s.
5. Steel produced domestically is steel produced in accordance within New Zealand's strict environmental, employment, safety and quality standards. By comparison, there is limited visibility as to the environmental, social, employment or safety conditions under which imported steel may be produced.
6. For every \$100 spent on locally produced steel, \$80 remains in the NZ economy. For imported steel only \$5 remains in the NZ economy.

