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OMV Upstream

### Submission on Gas Market Settings Investigation Consultation Paper

OMV New Zealand Limited welcomes the opportunity to make a submission on the GIC consultation document *Gas Market Settings Investigation Consultation Paper* (Consultation Paper).

OMV sees that the Consultation Paper outlines the current arrangements and potential issues in the New Zealand gas industry well. While there are some details where we have a different view (e.g. on page 16, we see the next significant remedial activities at Pohokura likely taking place during 2022, not over this coming summer) we agree with the broad outline of issues identified.

In particular, we note the references in the Consultation Paper to the need for increased policy predictability, and we strongly support this sentiment as an enabler to investment decisions in all areas of the energy system, including gas.

The remainder of this letter comments on the potential solutions mentioned in Chapter 5 of the Consultation Paper and in doing so will mention the few areas where OMV see issues differently to the Consultation Paper.

### Gas Market Flexibility and Resilience

There are four potential solutions outlined in the Consultation Paper that in our view seek to address similar issues related to increasing the flexibility, security (i.e. resilience to critical failures) and affordability of gas supply, these are:

- 5.1 Gas Storage
- 5.9 Potential Contribution of LNG
- 5.10 Reserves / Capacity market for energy
- 5.11 Potential Government Investment

OMV shares the concern that the with the increasing penetration of renewable power generation and the reduction in gas use for base-load power generation there will be an increased requirement for more flexible gas supplies and that achieving that may be difficult given the current market settings.

Other gas users (e.g. industrial heat applications) also require flexibility to meet, for example, daily, weekly and seasonal variations in demand. These flexibility requirements, while smaller, will likely endure beyond the time when thermal fuels are no longer required for power generation.

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OMV would support the GIC undertaking work to better understand the requirements for thermal fuel flexibility, how these requirements will evolve over time, how the gas system is placed to meet those requirements, what barriers to investment might be and whether incentives for the development of solutions are sufficient.

Given that in the short term the primary flexibility requirements relate to power generation this work should be done in close consultation with the EA.

While OMV views further work as warranted, we do not see that the case has been made for further interventions at this stage. We note that despite the confluence of two significant and rare events; a very low Hydro inflow year and significantly faster than expected decline in Pohokura production there has not been a requirement for a formal electricity conservation campaign (as has been required in previous dry years); and there is some evidence of the current market mechanism working to redirect gas to its highest value uses (i.e. the Methanex deal with Genesis), and to redirect electricity too (i.e. the NZAS demand-side response announced recently).

We also note that with Huntly running on coal, there is limited spare capacity in which to burn gas for power generation. This may limit the extent to which more flexible gas could have been used this year in power generation to add generation capacity. While it would be preferable that Huntly burn gas from an emissions perspective, doing so would not have resulted in significantly increased security of supply or affordability. With the planned shutdown of TCC in 2023 the amount of spare gas generation capacity will decrease further.

Any further work should address how a gas storage facility would be filled, and how parties can be incentivised to make that happen, including the development of additional upstream capacity. Currently, the gas system is running at capacity, existing contractual commitments must be met and existing storage at Ahuroa has not been fully utilised. A reserves/capacity market could be linked to providing the incentives to fill and maintain storage inventory.

We note that the GIC supply demand analysis, the Climate Change Commission and the BEC TIMES Energy scenarios assume an ongoing role for gas in power generation well after 2030. While we understand and support the rationale for the assumed role of gas in supporting intermittent renewables in these reports, the Government's very significant and firm commitment to ensuring 100% renewable electricity generation by 2030 cannot be ignored.

With current policy settings it will be difficult to justify any storage solution that requires significant capital investment that cannot be executed (designed, consented, sanctioned, built and filled) and achieve payback before 2030. This will constrain the range of possible solutions and the appetite for considering them.

We see the potential of LNG imports to provide the flexibility and resilience that the gas system needs through the transition through to 2050 while also supporting the country's long-term decarbonisation path. The ability to import LNG would address fundamental security of gas supply needs in addition to flexibility and resilience. The ability to import LNG could also provide a very cost-effective means to provide hydro-firming, until zero carbon alternatives are in place.

It would be useful for the government to indicate whether having the facilities available to be able to import LNG (if needed) would fit with their vision for an appropriate route to decarbonisation.

Consideration should also be given to whether open access arrangements for Ahuroa gas storage would enhance overall system flexibility and resilience in the short term.

We think it is unlikely, with the right policy settings, that direct government investment in gas system would be required.

### **Security of Supply**

In addition to ensuring flexibility and resilience it is important that the environment for continued upstream investment remains healthy. The Consultation Paper addresses the need for secure long-term demand but other factors also play a role such as the availability and health of the local supply chain and skill pool, regulatory load and support for our legal license to operate. Obviously, the exploration ban constrains the range of options upstream participants have in contributing to additional supplies.

The regulatory regime can also facilitate investment by ensuring robust and timely processes for trading upstream assets and by not tying up excessive amounts of capital in decommissioning securities (while balancing that against the legitimate need to incentivise upstream operators and owners to meet their decommissioning obligations).

As we have commented in previous submissions, Methanex plays a key role in underpinning demand in the gas market and therefore supporting upstream investment and has recently demonstrated other benefits they bring to the market through the recently announced deal with Genesis. It is important that as and when the government reviews the framework for industrial allocation of carbon units, the value that Methanex (and other industrial users of gas) bring to New Zealand is recognised and that they remain sufficiently protected to avoid both carbon leakage and negative outcomes for New Zealand.

As discussed above, LNG imports could play an important role in firming up local gas supply.

### **Information Availability and Understanding**

We note that significant work has already been done around information disclosure and that work stream is continuing. We are sceptical of the need for radical new initiatives in this area. For example, the suggestion of weekly supply and demand forecasting included in potential solution 5.2 would seem to add a significant reporting burden without a clear benefit. We see more merit in low-cost incremental improvements in information disclosure. For example:

- all historic production data could be included on the GIC portal (currently only production produced into open access pipelines is reported).
- MBIE could require a description of reported Contingent Volumes to allow a better assessment by users of the likelihood and timing of possible developments.
- Earlier release of the annual MBIE reserves data should be encouraged
- Consideration could be given to the inclusion of 1P production profiles in the annual MBIE reserves information submission as a way of providing information related to upstream production risks.

We note that more reporting of data (beyond that now being disclosed around outages) would not have materially alleviated either the Pohokura pipeline outage in 2018 and or the deterioration of Pohokura performance in 2020.

We do see that increasing the understanding of the gas system, including risks, would help increase the robustness of the overall system by allowing participants to manage their positions more effectively. We see the potential to build this over

time via the GIC portal starting with education about the NZ gas system and generic upstream risks.

- However, it is unclear what a publicly supported stress test would achieve. It is primarily each company's responsibility to manage their risks.

### **ETS**

The ETS is working well and should be relied on as the primary mechanism for driving decarbonisation. For example, OMV doesn't see a strong case for the use of supplementary measures for reducing gas use in process heat applications.

OMV sees that the primary role of the ETS is to enable New Zealand to meet its net -zero emissions target by 2050 and Carbon Capture and Storage (CCS) could play an important role in meeting that objective. CCS could be particularly useful for mitigating the emissions from hard-to-abate sectors.

We support the potential solution 5.4 of the Consultation Paper to clarify the status of Carbon Capture and Storage with respect to eligibility for ETS credits. The uncertainty around whether ETS credits will be able to be claimed for sequestering carbon underground is inhibiting the study and investigation of Carbon Capture and Storage solutions.

We are aware that other legal/regulatory barriers exist to the implementation of CCS in New Zealand, but as a priority it is necessary to clarify the eligibility of sequestered carbon for ETS credits.

### **Gas Transportation**

We support the GIC proactively monitoring and engaging with the ongoing Commerce Commission review and if necessary, advocating for a review of Section 4 of the Commerce act. The aim of such work would be to ensure that the fee structure for gas transportation pipelines avoids a "death spiral" where fixed costs are allocated to an ever smaller pool of users, increasing the cost to those users and resulting in more customers switching away from gas.

Thank you for the opportunity to submit on your consultation and we would be happy to meet and discuss any of the above topics with you.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'PT', is written over the 'Yours sincerely' text.

**Patrick Teagle**

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