



Beyond the Boundaries

Oji Fibre Solutions

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Gas Industry Company
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Sent to: consultations@gasindustry.co.nz

Gas Market Settings Investigation – Oji Fibre Solutions Submission

Thank you for the opportunity to comment on the Gas Market Settings Investigation report (the Report). Our submission template is also attached.

Oji Fibre Solutions (OjiFS) is a large industrial energy user, purchasing 4.6 PJ of fossil fuels (mostly natural gas) and 1.6 PJ of electricity each year to make raw materials for packaging and sustainable packaging products for the primary produce industry. The Company is also a large generator of renewable energy, with over 78% of its energy needs from renewable sources (22.7 PJ), principally in the form of wood residues and ‘black liquor’ (a biofuel consisting of lignin extracted from wood).

OjiFS is investing in New Zealand and environmental issues are a high priority, as evidenced by the recent \$200M upgrade to the wastewater treatment systems at the Kinleith Mill near Tokoroa. We also aspire to invest at scale in our energy systems over the medium to long term. For example, we are investigating a \$6-700M bio-energy project at the Kinleith Mill, which would likely produce 15 million GJ per year of zero-carbon process heat and 2.5 million GJ per year of base-load renewable electricity to the grid.

OjiFS’ Recent Experience

In 2021 the Company faced an alarmingly difficult time renewing natural gas contracts for its manufacturing facilities, most of which operated as essential services during the 2020 COVID-19 lockdowns. The system has failed to provide supply certainty during 2021, and this experience is impacting our owner’s confidence to invest.

OjiFS believes energy markets are currently in a state of crisis caused by a combination of low lake levels, gas production problems and ongoing uncertainty. We face very high energy prices over the next 18 months with most of our natural gas supplies priced at the electricity replacement cost. However, of greater concern is the potential for a system-wide fuel shortage to recur in the future.

High Level Comments

The Company supports progressive efforts to reduce greenhouse gas emissions over the long-term. However, we believe the short-term crisis needs to be fixed urgently; and a broad energy strategy is required for the longer term.

The current situation is a reminder that all aspects of the energy system are interlinked. The opaque elements of gas production are dangerous and there appears to be inequitable distribution of costs during fuel shortages – with some parties potentially benefiting (i.e. a wealth transfer).

We note the Climate Change Commission’s call for a comprehensive national energy strategy encompassing process heat as well as electricity. We suggest that, in addition to achieving emissions

reductions, a comprehensive strategy is crucial for improving the reliability of energy supply, price competitiveness and NZ's economic development.

Specific Comments

The Gas Market Investigation report appears to characterise the role of natural gas well and we appreciate the Gas Industry Company's efforts to engage with OjiFS. Our only comment on this aspect of the report is in relation to current supply risks. We suggest the report could better describe how perilous the situation has been for industrial users like us in 2021, and how this has impacted New Zealand's reputation.

We understand the primary reason for the Report was to consider the transition to a low carbon economy. However, as mentioned above, OjiFS believes urgent effort is needed to fix the short-term situation. We support the suggestions to improve risk management for gas supply; greater gas market transparency and formalising the thermal reserve capacity for electricity. To us there appears to be a need to at least quickly make the gas/thermal side of the system consistent with measures already in the electricity side in terms of supply risks, and market function.

In relation to information and risk management, the sudden and unexpected decline in production from Pohokura is a concern for all industry participants. It calls into question current supply forecasts. OjiFS strongly supports measures to provide more details on supply and reserves even if this must override concerns about commercial sensitivities from producers.

We note the above are 'soft' options. The only short-term 'hard' option for more physical fuel supply certainty and/or capping prices appears to be the importation of LNG. If this is the case it is critically important all barriers are removed as soon as possible.

OjiFS does not believe it is helpful to suggest long-term gas contracts can be a major part of the solution, because relatively small users cannot overcome the dominant effect of Methanex's relationship with gas producers as described in the Report. In any case, a healthy market should enable participants to choose, and it is difficult for a user like OjiFS to commit to the very long term because we aspire to reduce our fossil fuel use.

In terms of the long term, we do not have the expertise to comment on options like increasing gas storage but firmly believe a compressive energy strategy is required, as discussed above. OjiFS will need to use natural gas for its operations for some time but has the potential to radically reduce its demand in the medium term through the above Kinleith bio-energy project. Unfortunately, the combined effects of high energy prices, energy supply uncertainties and incentives for green investment from competing countries put this project in doubt. New Zealand needs a strategy to clarify how it intends to transition from fossil fuels, particularly in the industrial sector, and how it can attract investment in low emissions technologies at scale. We believe this is critical for New Zealand's development of a low carbon economy.

We are happy to discuss this submission further if you have any questions. Again, we would like to thank the GIC for their efforts in producing a good quality report and speaking to gas users.

Yours sincerely



Philip Millichamp
Group Manager Environment and External Relations
Oji Fibre Solutions

Submission template

Gas Market Settings Investigation 2021

Submission prepared by: Oji Fibre Solutions

Question		Comment
Q1	Do you agree with our characterisation of the role of gas in New Zealand?	The role of gas appears to be well described. OjiFS notes the important role it plays in providing reliability and back-up fuel for NZ's hydroelectricity system. We are concerned there is no clear alternative, especially in the short term, and fear ongoing gas supply uncertainty during dry years at least until there is enough storage and other alternatives.
Q2	Do you have any comments in relation to the gas supply and demand outlook?	OjiFS has no comment on the long-term gas supply and demand outlook. As discussed above, we are concerned about the short-term issues. Based on our experience with gas supply in 2021, we believe the system is not reliable enough and this is impacting investment confidence.
Q3	Do you agree with our characterisation of the commercial outlook for gas?	Yes, but OjiFS believes the system at present has become perilous for operators like OjiFS.
Q4	Have we captured the issues fairly and accurately? Have we missed anything?	As discussed, we believe the report may have overlooked the serious impact of the current crisis, where the combined shortage of hydro fuel (dry year) and natural gas has led to energy supply uncertainty for industrial users like OjiFS. We suggest these circumstances may recur in the future and damage the NZ economy unless fixed.
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?	We understand the report is largely looking at a long-term transition, but our recent experience indicates there should be attention given to the short term. In this respect, OjiFS supports measures to quickly increase transparency in the natural gas market, more risk management measures for fuel supply and formalizing thermal reserve capacity for electricity. Radical changes are needed in the availability of information on field forecasting and production for natural gas.
Q6	Are there any other potential solutions?	OjiFS is not aware of other potential solutions
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?	We agree there is unlikely to be a single solution and a set of solutions is required.
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?	The most important next steps are to improve reliability and confidence in the short term. The soft measures around transparency and risk management should be implemented in combination with hard measures such as providing for the importation of LNG as a back-up fuel for years of shortage.