

Submission template

Gas Market Settings Investigation 2021

Submission prepared by: Visy – Ryan Santowski

Question		Comment
Q1	Do you agree with our characterisation of the role of gas in New Zealand?	Visy agrees with the characterization presented and reiterates the importance of Natural gas and an enabler for economic activity, particularly in the manufacturing segment. While separate industries are recognized, Glass making should also be called out as key natural gas user
Q2	Do you have any comments in relation to the gas supply and demand outlook?	<p>Visy has a few additional comments and requests around the gas outlook</p> <ol style="list-style-type: none"> 1. Demand Destruction: It is not clear around the potential demand destruction risk that tight supply/demand balances present. While <i>some</i> commentary is provided. There are significant impacts to the view if large segments such as Petrochemicals or Agri-nutrients reduce production capacity or begin importation activity permanently 2. Continuation Risk: From our experience in other markets (Australia), there is no instantaneous reversion to other electricity generation sources post a tight supply scenario. This has the impact of lingering gas demand, creating a slightly different demand scenario. Visy would be interested to see further modelling on this 3. Gas Production investment decision making: Visy broadly with the parameters stated around Gas Production investment, however given the current NZ market design for gas, there is no genuine signal from end consumer to producer to create surety for all parties 4. 2P/2C Forecasting: We accept these outlooks as standard approaches to assessing gas reserves. Given decline in existing, proven reserves Visy would like to understand sensitivity if production declines accelerate faster than anticipated, or Pohokura takes longer than expected to recover 5. Composite/Worst Scenarios: To reiterate the point above, further sensitivity analysis is required particularly within the industrial segment around demand destruction
Q3	Do you agree with our characterisation of the commercial outlook for gas?	The role of well development economics is understated in the way it will position commercial attractiveness of gas as a fuel source into the future.

		<p>Visy disagrees with the statement “the price of gas transmission and distribution will also need to increase”. Given demand outlooks do not demonstrate significant growth, the need for price raising is concerning. Replacement Capex should not mean additional cost for end users. The stranded asset risk of pipelines is also understated. Any proposed pricing needs to continue to be evaluated via regulatory means to ensure least cost/highest function to all gas consumers</p>
Q4	<p>Have we captured the issues fairly and accurately? Have we missed anything?</p>	<p>Visy strongly agrees with the Information Disclosure work stream outlined in 4.1.2. Visy believes the Commerce Commission should have further powers to collect and report upon the state of the gas market regularly. Further to addressing asymmetry Visy puts forward the following additional suggestion. Further gas market reporting mechanisms are developed and administered by the Commerce Commission to report on Key Segment experiences. This will include previous bilateral bid and offer information including term, price (carbon exclusive) and key contractual information (such as daily flexibility, take or pay). Data would be anonymized. Further development of practical price reference points (such as an LNG or Electricity derived netback, or Oil Referenced price link) as a way to practically assess domestic prices against other uses or markets.</p>
Q5	<p>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?</p>	<p>Visy provides select views on <i>some</i> of the solutions proposed (noting some solutions outlined in previous questions):</p> <p>Gas Storage: Visy is an active supporter of natural gas storage which can provide many market support functions. One potential area of value not mentioned is the role storage can play in creating new supply methods for large end users. In order to ensure appropriate resource allocation from such a market supporting asset, Visy suggest further study is completed into the appropriate role of independent asset ownership and market operation of storage assets to ensure efficient resource allocation and user flexibility are prioritized</p> <p>Green Gases: More work is required to understand and qualify hydrogen as a replacement for natural gas, particularly in industrial process heating. Biogas is the more straightforward opportunity given it has been applied successfully in numerous industrial applications. A key issue with any behind the meter investment in generation is ensuring biomass security for the entirety of the asset life. Regulatory/Policy action for green gases should not attempt to prioritise either source but should support adoption of renewable gas generally. Visy’s experience suggest land requirements, planning/resource consents, infeed security and byproducts are all significant areas of management for such projects</p> <p>LNG: Domestic LNG and Gas Storage are two options with the same outcome. As a strategic reserve, gas storage of any form should be considered, with efficiency investment principles guiding any increased capacity. Visy reinforces the need for careful consideration around the role of LNG Imports. Priority needs to focus on indigenous gas, first and foremost</p> <p>Capacity Markets: Capacity markets do not address the underlying gas demand nor how indigenous production could/can be increased to support demand overall.</p>

Q6	Are there any other potential solutions?	Diversification of electricity market: This was not mentioned within the solutions area of the document. Waste to Energy should be considered as a viable baseload generation solution that helps free up gas for other segments.
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?	Visy agrees it will take a combination of approaches to help provide transparency and certain to functional market outcomes for domestic gas within New Zealand
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?	Addressing Information Asymmetry, particularly around providing a clear forward view of gas available for contracting until 2024 Reasonable support to fast track Pohokura improvements