

Analysis of Submissions on Consultation: Gas Industry Co FY2024 Work Programme and Levy



In December 2022, Gas Industry Co released its *Consultation on Gas Industry Co FY2024 Work Programme and Levy (Consultation Paper)* in respect of the proposed strategy, work programme and levy for FY2024. This ensures we continue to have a programme that is the product of robust industry consultation. The *Consultation Paper* was prepared after taking into consideration feedback received at the Co-regulatory Forum held at Gas Industry Co’s offices on 1 December 2022. Industry submissions were requested by 7 February 2023.

This document summarises submissions received, including providing comments in response from Gas Industry Co where appropriate.

Parties Submitting

Powerco

Major Gas Users Group (MGUG)

Genesis Energy (Genesis)

Vector Limited (Vector)

Firstgas Group (Firstgas)

Nova Energy (Nova)

Methanex New Zealand Limited (Methanex)

| Q1: Do submitters agree with Gas Industry Co’s assessment of the strategic context? | | |
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| Submitter | Comment | Gas Industry Co Response |
| Powerco | No comment on Q1. | |
| MGUG | In general, the strategic context describes the current context well. However, we would advise against making bold statements about the future of New Zealand’s energy system, particularly the role of gas. For example, asserting that; “By the end of next decade, New Zealand’s gas production and consumption will decline substantially”, gives an unfounded level of certainty given that transition pathways are yet to be described, let alone play out. Gas is not limited to natural gas and in the context of two decades of exponential change the potential for technology as well as policy over successive Governments to play an important role is something that no one can predict with any degree of | While it’s true that the future is always uncertain, it’s part of GIC’s role to provide trusted advice to sector and government about the range of expected roles for gas in the energy transition. By the end of next decade New Zealand’s gas production and consumption will decline substantially, however there will remain a role for gas through to a net zero emissions New |

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| | confidence. It's important that the language acknowledges that the future is never certain. | Zealand in 2050. As gas fields deplete, it's unlikely that significant new fields will be brought into production and the sector will need to make adjustments. We see a role for gas in small commercial and residential uses for a longer-term, supported by renewable gases. Renewable gas could enter networks this decade, with infrastructure required to support these sectors. |
| Genesis Energy | Yes. In particular, the focus on the challenges the gas sector faces as a consequence of New Zealand's transition to a net zero economy by 2050. While there is considerable uncertainty regarding the pace of this transition, GIC has a key role in ensuring it is as orderly as possible, and affordability and energy security is maintained. | |
| Vector | <p>Vector broadly agrees with Gas Industry Co's assessment of the strategic context for the delivery of its proposed FY2024 work programme.</p> <p>In our submission on the GIC's work programme for FY2023, we indicated that:</p> <p><i>"...gas has an ongoing role to play to support the energy transition, including providing flexibility and ensuring that gas is available for electricity generation when it is required, particularly during dry winters. Gas remains a fuel of choice for many homes and businesses. Its long-term replacement will have to be carefully worked through to ensure cost recovery for long-lived investments, and that consumers are not disadvantaged. The affordability of gas and electricity is a key component for ensuring a successful transition to a low carbon energy future."</i></p> <p>There is great uncertainty around future policy and regulatory settings for gas as industry participants await the release of the Gas Transition Plan that would establish pathways for decarbonising the gas sector. Without the right settings, there are very real risks of regulated gas pipeline businesses' assets being stranded (i.e. that these businesses may not be 'kept whole') and energy</p> | We note comments contained in numerous submissions supporting the Gas Transition Plan and the certainty it will provide to industry as part of the broader National Energy Strategy. |

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| | <p>becoming unaffordable for many consumers. We acknowledge Gas Industry Co's ongoing targeted engagements with stakeholders in the development of the Gas Transition Plan. The release of the draft Plan, scheduled in mid-2023, would be the first time that all industry participants would face proposed transitional policies for consideration at the same time. As such, we suggest that Gas Industry Co allow participants to make cross-submissions on the initial submissions, to enable participants to respond to, or build on, the views of other participants. In-person workshops or conferences on specific topics would also be beneficial. This would make for a more meaningful consultation that would help inform and ensure an orderly energy transition.</p> | <p>The GTP is a project being run in conjunction with MBIE. The consultation process is therefore required to follow the normal process for Government policy consideration.</p> |
| Firstgas | Yes. | |
| Nova | <p>Yes. Nova agrees with the GIC's assessment, in particular its notes under the Gas Transition Plan and Energy Transition.</p> <p>There is pressure on the gas industry to support security of electricity supply in the interim as other renewable energy options are developed. It is within the scope of the Gas Transition Plan to address such issues, and the resources the GIC is putting to that are appropriate, albeit that much of the work is taking place in the current financial year.</p> <p>However the gas transition plan cannot stand alone. The primary focus for 2024 must be on ensuring the gas transition plan is integrated with the New Zealand Energy Strategy (NZES). If New Zealand is to sustain energy security over the long-term then the NZES must support sufficient gas exploration and development to enable the transition from reliance on fossil fuels as a base-load energy source to becoming a highly flexible source of reserve energy. Gas supplies will need to be sufficiently robust and flexible to support seasonal variations in demand, peak electricity demand, and plant outages (planned and unplanned).</p> | Noted. |

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| | Nova agrees there is an issue with "Investment in ongoing field development, and solutions to investment confidence issues identified in the 2021 gas market settings investigation, where those are not fully addressed in the Gas Transition Plan." | |
| Methanex | <p>The Strategic Context described in the consultation document is generally sound but incomplete. Petrochemical gas demand is not addressed while the strategic context for industrial demand, baseload and peaking electricity generation are all specifically referenced. This is a significant omission given petrochemical demand has unique characteristics and plays an important role in the sector:</p> <ul style="list-style-type: none"> • Largest demand segment by a significant margin • Production is significantly curtailed today due to lack of secure, longterm supply • Underpins continued gas development for the rest of the industry with long-term, material, stable demand and plays an important role in national-level energy security • Much of the carbon from gas used in this sector is not burnt but ends up as product • Is recognised as a "hard-to-abate" sector (most of New Zealand's industry requires low and medium heat and is not usually referred to as "hard-to-abate"). • The clear contribution that New Zealand's gas-based chemical production makes towards mitigating global emission increases <p>Methanex would be willing to work with the GIC to amend the strategic context to include a paragraph on the strategic context for petrochemicals.</p> | GIC recognises the dominant role of petrochemicals in the gas sector. We will ensure this is covered off in future discussions of the strategic context going forward. |

Q2: Do submitters have any comments on the process for developing Gas Industry Co's FY2024 Work Programme and Levy?

| Submitter | Comment | Gas Industry Co Response |
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| Powerco | Powerco appreciates GIC's industry engagement in developing the FY24 work programme and levy. | |
| MGUG | No. We appreciate the opportunities to be involved to shape the GIC work programme. Perhaps one area for improvement is for the GIC to rank its Work Programme items in order of priority. This would make it easier to understand what might slip from the programme should funding fall short (because of e.g., lower than forecast recovery). | Noted. |
| Genesis Energy | No. | |
| Vector | Vector generally agrees with the process for developing Gas Industry Co's Work Programme and Levy for FY2024. It is a well-established process based on the principles of economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency. Gas Industry Co could further consider the additional principle of 'supporting the energy transition'. | Noted. |
| Firstgas | No. | |
| Nova | There could be value in increased 1:1 engagement with key stakeholders prior to the co-regulatory forum. | Noted. |
| Methanex | No. | |

Q3: Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2024? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.

| Submitter | Comment | Gas Industry Co Response |
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| Powerco | We support the proposed work programme and associated funding proposal. The sector is in a busy and changing time and GIC has a complex mix of known activities while needing to be flexible to respond to new activities. We support the intention to reassess priorities during the year as required. | |

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| MGUG | <p>Ref: GPS – 7, 9, 11</p> <p>We are unclear what is meant by potentially working with the Commerce Commission regarding recommendations impacting pipeline regulation in the Gas Transition Plan. Given the experience with the Commerce Commission in the last DPP3 round and the current IM review round we suggest that this should mean that the GIC can do more to convince MBIE that Commerce Act Part 4 definition of gas pipeline services needs to be amended to keep them fit for purpose. Currently the definition of "gas" skews the economic regulation away from the option of repurposing gas lines. If the GIC considers that it should be involved in removing existing legal and regulatory barriers for CCUS (technology not even in play yet in NZ), it seems that it should also be looking at existing regulatory arrangements that need updating to keep them fit for purpose. (Promote GPS statements 7, 9, 11).</p> | <p>We note MGUG's perspectives on specific issues. With regard to the work programme, we will continue to monitor (as the GPS requires), pipeline access and transmission arrangements to ensure they remain fit for purpose.</p> <p>Advice on transmission and CCUS are expected to be made in the GTP. We look forward to engaging further on these matters.</p> |
| Genesis Energy | No. | |
| Vector | <p>Vector does not believe there is a need to include any other work items in the already full Work Programme proposed for FY2024. The comprehensiveness of the Gas Transition Plan's coverage would also help ensure that any unforeseen issues could be captured under the Plan in the immediate or longer term.</p> <p>We make the following comments or suggestions in relation to some of Gas Industry Co's ongoing and proposed work streams set out in the consultation paper:</p> <p><u>Regulatory framework for gas pipelines</u></p> <p>We expect the draft Gas Transition Plan to provide clear signals, and hence greater certainty, on the transition pathway(s) for gas pipeline networks. Long-lived regulated assets with a declining demand profile require long-term planning that, under existing arrangements, is driven by regulatory reset periods.</p> | Noted. |

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| | <p>We encourage Gas Industry Co to coordinate closely with the Commerce Commission in the latter's ongoing review of the Commerce Act Part 4 Input Methodologies. This would help ensure that the risks for gas pipeline networks identified above are addressed in an efficient manner and in the long-term interest of consumers.</p> <p><u>Long-term gas supply and demand scenarios</u></p> <p>Gas price variability in recent years and the unfolding energy transition are creating greater uncertainty for industry participants and consumers. This is compounded by uncertainty around policy and regulatory settings that remain to be announced via the Gas Transition Plan (scheduled for release in mid-2023). To help reduce uncertainty, we suggest that updates to the long-term gas supply and demand scenarios Gas Industry Co usually commissions every two years or so be updated more frequently – to annually. This would help industry participants and consumers make more informed decisions as the transition progresses.</p> <p><u>D+1 allocation</u></p> <p>Vector supports the Daily Allocation Working Group's (DAWG) conclusions that:</p> <ul style="list-style-type: none"> • The D+1 allocation process should be integrated into the Gas (Downstream Reconciliation) Rules (the Rules). • The accuracy of the D+1 process will be improved by introducing a change to the Rules that requires all sites with an annual gas consumption of 20TJ and above to be an Allocation Group 1 (AG1) customer, i.e. a customer that is required to have telemetry installed and report its gas consumption daily. • The D+1 allocation arrangements should operate seven days a week. <p>Gas Industry Co has consistently advised that the most effective way to improve the accuracy of D+1 calculations is the increased provision of daily metered</p> | <p>GIC intends to commission supply/demand studies annually.</p> <p>We note Vector's comments and also its submission on the D+1 Options Paper. Stakeholder feedback on the Options Paper, along with input from the DAWG, will help us to shape the forthcoming Statement of Proposal on D+1.</p> |

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| | <p>data. Whilst we are of the view that the Rules should require all time-of-use meters to have telemetry installed, we nevertheless support the second DAWG proposal above which requires telemetry to be installed subject to the above volume threshold.</p> <p>With the increase in gas price variability over recent years – including increasing pipeline balancing gas costs – it is more important than ever that gas shippers are provided with accurate information to efficiently manage their balancing positions.</p> <p>As long as daily balancing is required by the gas transmission pipeline system, a daily allocation arrangement will be required to assist shippers in managing their balancing positions. This will help minimise shippers' balancing costs and thereby reduce costs to gas consumers.</p> <p>The DAWG or the refreshed Advanced Gas Metering Infrastructure Group (AGMI Group) could consider alternatives to D+1 in future years as the deployment of advanced gas meters progresses. It is, however, premature to consider alternatives to D+1 – a process that can potentially deliver the most accurate data – at this stage of market development.</p> <p>We support the move for the operation of D+1 and market-based balancing calculations to seven days a week. That these processes only operate on business days is an anomaly within the gas industry, which itself operates 24 hours a day, seven days a week.</p> <p><u>Facilitating industry systems and processes</u></p> <p>Whilst Vector encourages Gas Industry Co to focus on the Gas Transition Plan, which will have significant implications for many participants and consumers, we also urge Gas Industry Co not to lose focus on facilitating industry systems and processes, including regular market operations.</p> | <p>Noted.</p> |

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| | <p>In practical terms, we believe this means no lowering of standards in market operations processes. These include, for example, maintaining timely responses to system changes proposed by participants that require the approval of Gas Industry Co or an auditor, or avoiding duplication of audit invoices that creates confusion. Delays in efficiency improvements to, or reduction in efficiency levels of, market processes increase costs for participants and ultimately, consumers.</p> <p><u>Advanced gas metering</u></p> <p>Further to the above, we suggest that the AGMI Group's work/agenda be progressed with urgency. This would help ensure that the benefits of advanced gas meters are delivered to the market and consumers in a timely manner. These benefits include, for example, more efficient market reconciliation processes from fewer estimated consumption data and more timely/frequent reading for consumers, e.g. monthly reading/bill instead of every three months. In our view, the AGMI Group is best placed to progress the proposed improvements to the D+1 allocation process identified above.</p> | <p>We agree there are many benefits to AGMI and we are pleased to be making progress on this workstream. We will continue to meet with the AGMI Working Group in 2023, and jointly discuss issues with the DAWG, if necessary, where there is an overlap in subject matter.</p> |
| Firstgas | No. We caution against expanding the GIC's work programme lest it detract from delivery of the Gas Transition Plan. | Noted. |
| Nova | No. | |
| Methanex | Methanex notes the high level of continuity in the work programmes and supports the continued work on the implementation of the Gas Transition Plan (a new item in last year's work programme). | |

Q4: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2024? Please provide reasons for your response.

| Submitter | Comment | Gas Industry Co Response |
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| Powerco | No comment on Q4. | |
| MGUG | We trust the GIC to manage its budget. It would be useful to know what the GIC considers its "must do within 12 months" vs what could be deferred. | GIC is conscious of managing our budget and the cost implication on the industry and consumers. |
| Genesis Energy | No, but Genesis notes that it is likely that the GIC's work programme will be materially determined by the outcome of the Gas Transition Plan, a draft of which has not yet been available for review. Genesis supports this work and looks forward to providing views when the opportunity arises. It is important that development of the plan is not delayed, to provide certainty to the industry and ensure that the broader National Energy Strategy is also delivered on time. Genesis considers that development of the Gas Transition Plan is a high priority activity, and therefore it would be reasonable to consider reprioritising some workstreams to ensure the plan is delivered on schedule, if this becomes necessary. | Noted. |
| Vector | <p>Vector does not believe there is a need to exclude any items from the intended Work Programme for FY2024.</p> <p>We welcome Gas Industry Co's decision – as part of the development of the new Market Guidelines for Raising Consumer Awareness of Utilities Disputes and Powerswitch – not to include 45kg bottled LPG prices in Powerswitch. We expressed significant reservations about this proposal, which would only have increased the regulatory burden on Powerswitch and LPG suppliers without significant net consumer benefits.</p> <p>As indicated in our submission on Gas Industry Co's FY2023 work programme, "[i]n the relatively small LPG market, bottled LPG pricing is already transparent and non-complex (and the value of an LPG bottle is low), and customers can easily 'switch' between numerous providers." Including LPG prices in Powerswitch is therefore unwarranted now and into the transition years.</p> | Noted. |

Q4: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2024? Please provide reasons for your response.

| Submitter | Comment | Gas Industry Co Response |
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| | This Gas Industry Co decision is one step in the right direction to enable market participants to navigate the energy transition smoothly, rather than focusing on increased compliance costs that would not deliver overriding consumer benefits and promote energy affordability. | |
| Firstgas | No, as the GIC is confident it can progress or complete items on the work programme. | |
| Nova | No. | |
| Methanex | No. | |

Q5: Gas Industry Co is particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the 170 PJ projection reasonable? If not, what would they consider an appropriate gas volume estimate to be? NOTE – all submissions provided in response to this question have been treated as confidential and will not be published.

Q6: Do you have any comment on the proposed levy rates for FY2024?

| Submitter | Comment | Gas Industry Co Response |
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| Powerco | We support the proposed work programme and associated funding proposal. Powerco commends GIC for keeping costs in check and achieving a slightly reduced levy for FY24. With the main part of GIC's work on the Gas Transition Plan (GTP) to be completed this current financial year, a reduction in total funding required over the next few years is expected. While advice and new activities for the energy transition will arise, these should be less resource-intensive than the current effort to develop the GTP. From FY24, we anticipate that the levy should return to a level more like it was a few years ago. | Noted. |
| MGUG | No. | |

| Q6: Do you have any comment on the proposed levy rates for FY2024? | | |
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| Submitter | Comment | Gas Industry Co Response |
| Genesis Energy | The levy appears appropriate, acknowledging some uncertainty in respect of funding unexpected work. | |
| Vector | <p>The proposed FY2024 Work Programme costs totalling \$5.94 million represent a \$0.40 million or 6.26% reduction from the current financial year's budget. We commend Gas Industry Co for exercising restraint in setting its levy rates and overall Work Programme costs despite a heavy workload for FY2024. It is rare to see a regulator proposing a reduced overall budget for the next financial year.</p> <p>In addition, various industry participants have initiated work on their own and/or in collaboration with other participants and regulators – using their own resources – to generate important information and insights that feed into ongoing industry discussions and the development of the Gas Transition Plan. We intend to continue to be actively involved in these discussions and collaborative work that would help ensure the gas industry and consumers can navigate the energy transition in an orderly manner.</p> | Noted. |
| Firstgas | No. | |
| Nova | Nova supports the levy rates. | |
| Methanex | Methanex appreciates the decline in absolute costs relative to last year and while costs haven't returned to previous years' levels we recognise the need for ongoing work in relation to the Gas Transition workstream which wasn't applicable then. Notwithstanding the absolute cost decline, the levy cost increase is disappointing. If volumes decline again next year and/or costs do not decrease sufficiently we will encourage the GIC to carefully weigh future work programme priorities against the industry's ability to pay. | Noted. |