

9 February 2024

Gas Industry Company

By email: consultations@gasindustry.co.nz

Submission on the *Gas Industry Company's FY2025 Work Programme and Levy*

Introduction

1. Energy Resources Aotearoa is New Zealand's peak energy sector advocacy organisation. Our purpose is to enable constructive collaboration across the energy sector through and beyond New Zealand's transition to net zero carbon emissions in 2050.
2. This document constitutes our brief submission on the [Gas Industry Company's FY2025 Work Programme and Levy](#).

Submission

Gas Industry Company's assessment of the strategic context

3. We agree with the GIC's assessment, in particular the hypothesis that intermediary changes to the FY2025 Work Programme will be needed once we have better clarity about the new Government's intentions for gas transition issues and strategy.
4. We note there is no mention of activities to promote or investigate options for improving New Zealand's gas storage. This could be an area for investment and has been signalled by [MBIE in its advice to the new Government](#) as an option for long-term energy security and could potentially help to manage the dry-year risk. For that reason, it may be worth including in your list of transition activities.
5. While the gas production sector has relatively stable levels of demand there is no doubt that gas consumers will need increased flexibility from suppliers, particularly as the electricity market moves to higher levels of renewable generation. As well as placing pressures on the likes of Methanex to respond to the potential for gas shortfalls during low hydro storage conditions, there needs to be more emphasis given to gas balancing on a 24/7 basis when gas-fired peakers respond to meet peak electricity demand.

There are positive and negative signals in the gas market currently

6. Positive signals since the change in Government include its:
 - a) intent to remove the ban on new exploration of offshore gas fields;
 - b) intent to remove the 100% renewable electricity by 2030 target;
 - c) intent to revisit the perpetual liability on Crown Mineral permits in the context of decommissioning;
 - d) stopping of the NZ Battery project and Lake Onslow pumped hydro scheme and refocusing on systemic security of supply issues; and
 - e) acceptance (including from MBIE in its [briefing to the incoming Minister of Energy](#)) that gas is a critical fuel for the energy transition;
7. And more broadly:
 - a) there has been a growing acceptance internationally, including at [COP28](#), that gas is an important fuel for securing stable energy supplies; preferable to more polluting fuels like coal, and is especially important for supplying electricity peaking in highly renewable systems.
 - b) there has been a rejection of language like 'phasing out' of fossil fuels in favour of 'transitioning away from';
 - c) new gases (hydrogen, biogas) are increasingly being acknowledged as longer-term complementary fuels, which could, over time, extend the life of gas transmission and reticulation systems; and
 - d) we understand there are several permitted gas exploration activities ready to go and investment ready to support these within the New Zealand jurisdiction.
8. Should the political and investment confidence be somewhat restored by the above signals, there is still a chance that New Zealand may be able to avoid an abrupt and unplanned decline in critical gas supply to the market.
9. Negative signals are larger in magnitude and growing. They include:
 - a) lower than expected gas reserves revealed in [2023 data from MBIE](#);
 - b) an uncertain geopolitical context, in particular the conflict in Europe/Russia and the Middle East;
 - c) loss of investor confidence since 2017 because of the offshore exploration ban and other policies that undermine investment in the gas sector; and

- d) increasing overseas competitors with lower regulatory barriers for gas exploration.
10. To address these signals, there is a need for coordinated, long-term regulatory certainty. The role for the GIC is to continue its vital governance and regulatory work with MBIE and the sector to clarify the settings needed to increase gas supply security and investor confidence.

Work Programme prioritisation

11. The proposed prioritisation of activities should continue. Some of the strategic work will help inform options on measures for investor confidence, CCUS and biogas, for example.
12. While we think it is unlikely, if you were faced with choices to cut back on activities down track, we think the strategic work could be deferred or outsourced in favour of the critical BAU regulatory work that only the GIC can do.

Governance

13. We support your work to *review the levy, based on principles*, and only caution that as the levy increases, so will costs. Continued or large increases will become less sustainable over time, and it may be prudent for a more holistic levy review in future that considers alternative mechanisms for funding the GIC's vital regulatory activities.
14. We have no further comment on other governance activities proposed.

Bringing trusted advice to Government and Industry

15. We encourage your collaborative work with MBIE on the *Gas Transition Plan*, if it continues, or on gas transition issues *generally*. Having a strategic plan for gas in New Zealand's economy is important.
16. Should new or alternative governing arrangements be proposed, we will work with you to form a response and gather feedback from gas sector stakeholders.
17. On your *activities to support the energy transition*, we support these to the full extent that they remain economically viable without undue pressure on the levy rate.
18. We are particularly supportive of your work in *engaging with agencies responsible for achieving emissions reductions* to ensure measures align with security of supply in the gas sector.

Facilitating industry systems and processes

19. We support your workstream to assess the *level of information disclosure* in the industry and consider options for addressing issues found.

20. We caution against proposing information disclosure options that would result in undue, uncertain, and unnecessary costs on the gas industry and consumers.
21. If disclosures provide helpful information at a system level for regulators and investors, attention should be directed to low cost, voluntary options that are agreeable to the sector, and contribute to data sets that are sharable to a wide range of stakeholders.
22. On *guidelines to enhance consumer outcomes*, we support the development of guidelines that provide for gas retailers in helping their customers receive predictable prices and information about their gas supplies.
23. On *gas transmission activities*, we have no comment.

Funding of operations

24. On *funding matters*, we have no further comment other than to keep levy increases to a minimum and continue to assess the ongoing work programme on an iterative basis in line with forthcoming Government priorities and stakeholder feedback from the Gas Transition Plan.
25. We agree with you that the current Work Programme will need regular review, as it was drafted during a time of political and technological changes. We look forward to working with you during these reviews.

Forecast gas volumes

Conclusion

27. Thank you for the opportunity to make a submission on your FY2025 Work Programme and Levy. We look forward to discussing your overall feedback.