

## QUARTERLY UPDATE

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29 April 2021

### **About us**

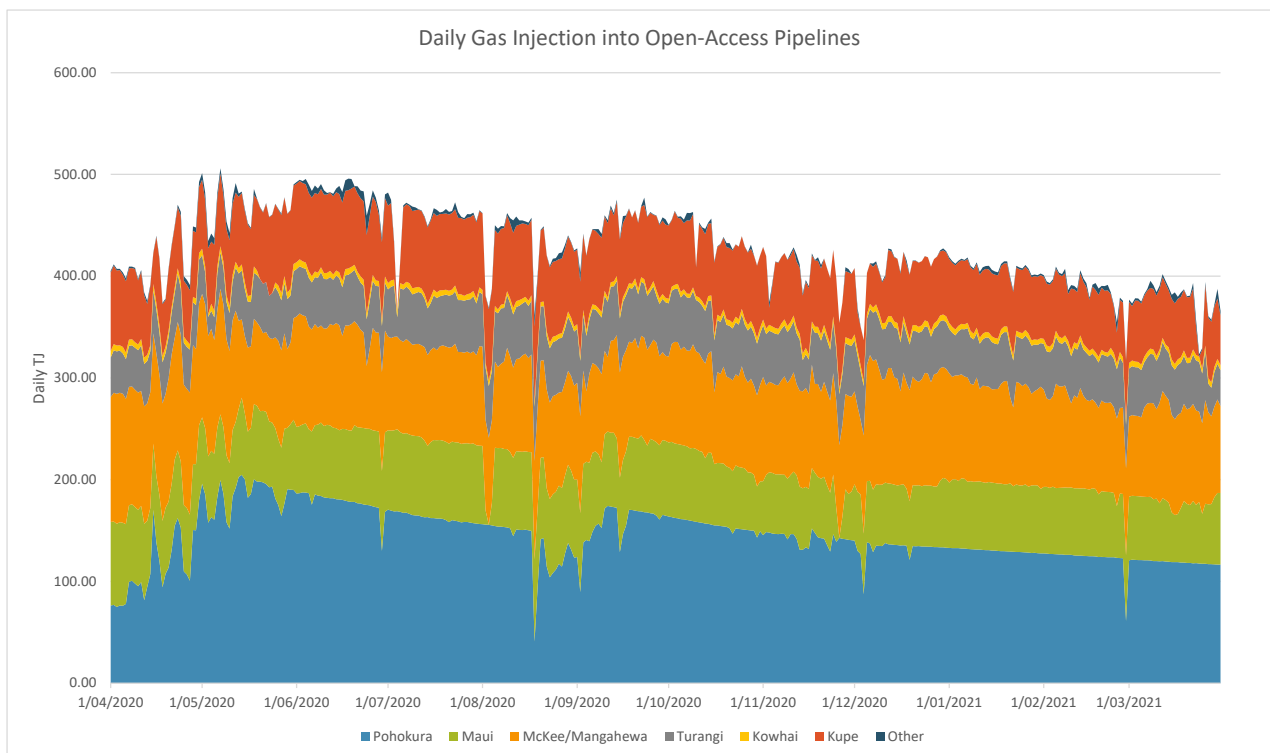
Gas Industry Company is the industry body that works alongside industry and government to co-regulate gas so that New Zealanders enjoy safe, efficient, fair, reliable, and sustainable gas delivery.

Gas Industry Company applies our knowledge about the gas sector to analyse issues and provide high quality advice to keep decision-makers informed.

# 1. Gas Today

## Short term market conditions are tight

The year started with elevated concern among some large industrial and commercial gas users over access to gas. While we have been able to facilitate some parties' discussions of options for securing short-term gas contracts, prices offered have been influenced by fuel shortages in both electricity and gas sectors.



## Price impacts have varied

Most gas is supplied under long-term contracts, many of which underwrite field development. Larger industrial gas contracts with renewal dates in the current year, and some commercial customers, have been exposed to price increases that exceeded expectations, as well as difficulties obtaining gas.

The cost of producing gas, and prices under existing long-term contracts, have not changed.

## Electricity demand response from gas

Gas typically provides support for electricity in periods of reduced renewable energy supply.

Gas production is currently near capacity, so supply response is not available in the near term and increases in requirement for gas for electricity have come from gas demand side. A substantial demand response has been demonstrated following announcements about production decline from the Pohokura field. Methanex has idled its Waitara plant and reduced production at Motunui.

Further demand response from gas, if required, is likely to be expensive and will need to be considered alongside the full range of options in the gas and electricity sectors.

## New gas production is coming in the medium term

New production is likely to become available later this year and in 2022.

Investment in the Kupe, Maui and Mangahewa fields is likely to ease some current supply constraints as production from those fields increases.

However, demand for gas this year is likely to be high compared to available supply. For customers who do not have existing supply contracts in place, prices will remain high and supply will remain tight at least until new production becomes available at deliverability volumes exceeding the natural decline due to production.

## Firstgas announcement on hydrogen

Firstgas has released a major study looking at how hydrogen might be used in its gas pipeline networks, as part of a low carbon energy system in New Zealand. Along with other analysis, the study examines the role of existing pipeline infrastructure in the energy transition. Its conclusions demonstrate that existing infrastructure will be required to facilitate the emergence of green gases.

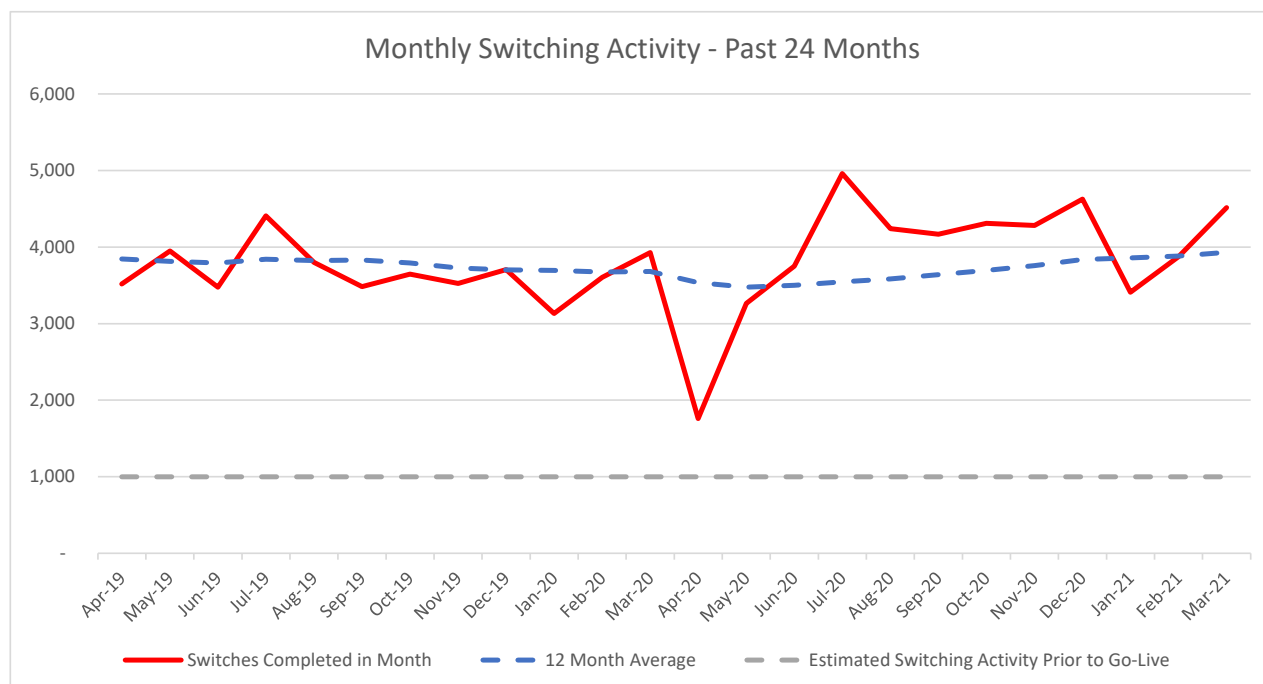
Information about the study is available on its website, [gasischanging.co.nz](http://gasischanging.co.nz).

## Residential gas customers continued to switch

The rate of gas switching is a measure of efficiency and competition in the market.

In the past 12 months, there have been an average of 3,931 switches completed per month, which translates to an annual churn rate of about 16 percent.

	January	February	March
<b>2020</b>	3134	3607	3928
<b>2021</b>	3409	3877	4515

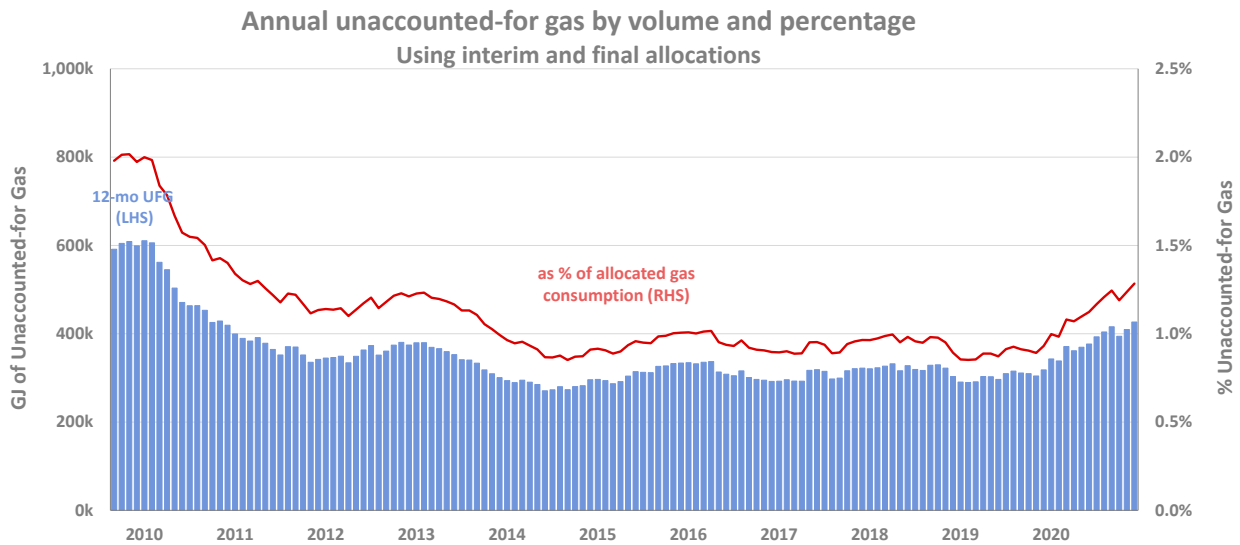


Around 72 per cent of consumer switches are completed within three business days and 98 per cent are completed within seven business days.

This is a substantial improvement over 2009, when only 39 per cent of switches were completed within three business days and 50 per cent within seven.

## Unaccounted for gas losses

'Unaccounted for gas' is gas supplied into the system but not used by any end customer. In 2009, 2 per cent of gas was unaccounted. Annual average unaccounted for gas over the past year was down to about 1.2 per cent.



## 2. Our Work in Progress

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### **Security and certainty of gas supply in New Zealand investigation**

Gas Industry Company is investigating whether current market, commercial and regulatory settings that provide for gas availability and flexibility are fit for purpose in supporting the transition to 100% renewable electricity. The project was initiated when the Minister of Energy and Resources wrote to Gas Industry Company asking for an investigation. A response is due by mid-2021.

Gas Industry Company has met with key stakeholders across the industry. An issues paper is now being developed for consultation. It is likely to be published in early May.

Supporting analysis is also close to completion, including a study on gas supply and demand to 2035, and a gas in a renewables-rich future project.

Gas Industry Company has learned a lot from our conversations. We are grateful for the constructive engagement and thoughtful input and we encourage stakeholders to participate in the next round of written responses to the consultation document.

### **The GIC Statement of Intent for the next three financial years will be published in July**

Our Statement of Intent process includes a work programme and associated costs for the following financial year, and indicative activity for at least the subsequent two years.

Work programme costs are mostly funded through market fees under gas governance rules and through annual levy regulations.

The Statement of Intent is with the Minister of Energy and Resources for comment.

### **Electricity Price Review recommendations assessed for gas**

The 2019 Electricity Price Review recommendations did not extend to the gas industry, however Gas Industry Company has nevertheless consulted on whether the 32 recommendations are applicable to gas markets.

On 6 November 2020, we released a consultation paper *Extending the Electricity Price Review's Final Recommendations to the Gas Market – An Assessment*. Fifteen [submissions](#) were received. Gas Industry Company has now reviewed these submissions and developed a set of recommended next steps set out in this [paper](#).

The recommended next steps include new workstreams for Gas Industry Company. It will be subject to further consultation. Other recommendations will be referred to other agencies to consider.

### **Information Disclosure papers under development**

Following discussions over information disclosure rules, Gas Industry Company sought submissions on the draft *Statement of Proposal (SOP) for gas production and storage facility outages*.

Submissions closed on Thursday 4 March 2021 and 16 submissions were received. Submissions are currently being considered.

Gas Industry Company is developing separate papers on two issues where further work is required:

- whether major gas user outage information should be included in an information disclosure regime.
- whether there are information transparency and asymmetry issues about contract price and volumes in the wholesale gas market, and options for how any such issues could be addressed.

## **Hydrogen regulatory issues investigation**

We are working with MBIE to organise a workshop for regulators to discuss the hydrogen regulatory context.

The aim of the workshop will be to create a common understanding of the regulatory landscape and will include the various affected regulatory agencies.

We are expecting to hold this workshop in mid-May.

## **Hydrogen and biogas certification**

The NZECS has launched a system for renewable gas certification in New Zealand. It is inviting industry to respond to its consultation process.

GIC encourages stakeholders to engage with consultations about the certifying regime.

Alongside that work GIC is continuing to engage with other regulatory issues over the appropriate regulating and certifying green gases.

# GAS INDUSTRY INSIGHTS

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## Gas production and major user consumption

Gas production and consumption charts showing gas output from most major fields and the consumption of gas by several large users are updated three times a week and can be found [here](#).

## FIND US

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Gas Industry Company is the industry body that co-regulates gas to ensure New Zealanders enjoy safe, efficient, fair, reliable, and environmentally sustainable gas delivery. We work closely with industry players and regulatory agencies to develop arrangements and regulations.

To get in touch or to find out more about the work we do, please contact us on 04 472 1800 or at [info@gasindustry.co.nz](mailto:info@gasindustry.co.nz) or head to our website [www.gasindustry.co.nz](http://www.gasindustry.co.nz)

## UPCOMING EVENTS CALENDAR

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What	When	Notes
Gas Market Settings Investigation – Issues Paper released for consultation	End April / start May	Consultation for a month
Gas supply and demand study released	May 2021	
Workshop to discuss the hydrogen regulatory placemat – in conjunction with MBIE	Mid-May 2021	
Gas Markets Settings Investigation published	July / August	
Statement of Intent and Levy published	1 July 2021	
Retail Gas Contracts Oversight Scheme review	Scheduled for July 2021	
Annual Report published	30 September 2021	
Co-regulatory forum	November 2021	