

QUARTERLY UPDATE

July 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

Energy supply remains tight

Gas supply remains tight due to the combination of sharper than expected reductions in supply at Pohokura in 2020, COVID related delays in development, and high thermal electricity demand during 2021 due to lower than normal inflows. Gas supply remains tight despite the recent rainfall, with overall energy supply still at levels that require significant decreases in industrial demand.

Energy that is not bought on long term contracts continues to be priced at high levels. New long term supply contracts reflect the tight market conditions. We are aware of industrial and commercial customers being offered energy contracts at much higher prices than prices in their expiring contracts. Some commercial energy users have encountered difficulty in securing offers to contract supply.

In May, Gas Industry Company released a report by Concept Consulting looking at gas demand and supply projections – 2021 to 2035. The report forecasts sufficient gas to be available to meet demand this winter (barring any major plant failure in the gas supply chain) but warned that, "the tight supply position is likely to contribute to sustained high wholesale gas and electricity prices – reflecting the price needed to induce demand diversion."

Tighter again in 2022, then easing

Concept says tight supply conditions being experienced this year appear likely to continue into 2022. If remedial work can be undertaken at the Pohokura gas field this summer, then relief may be available.

By 2023-2024 there is more confidence that tight conditions will ease as planned work programmes at Kapuni, Kupe, Mangahewa, Maui, and Turangi will have been undertaken by then and will bring more gas to market.

Gas availability for electricity forecast to continue transition

Gas Industry Company is continuing work on the Gas Market Settings Investigation, including an assessment of gas availability for electricity security of supply (see below). Concept's report forms part of the investigation. It anticipates that during the transition to 100% renewable electricity generation, "The demand segment that we think will have the greatest challenge in securing gas is power generation. In particular, power generators may face increasing difficulty in contracting supply for the portion of their demand that is unpredictable because producers will not invest in supply-side assets without relatively firm sale commitments. The question then becomes how power generators obtain their flexible fuel needs during the transition to 100% renewable electricity – a transition that is expected to last for many years. This challenge will become even greater as Genesis reduces coal use at the Huntly power station."

Methanex agrees to provide further electricity market support

Methanex and Genesis Energy announced an agreement in which Methanex will make significant quantities of gas available to support short term electricity security of supply.

The agreement is for 3.4 to 4.4 petajoules of gas, which will substantially reduce the volume of coal used to support renewable generation over the agreement period.

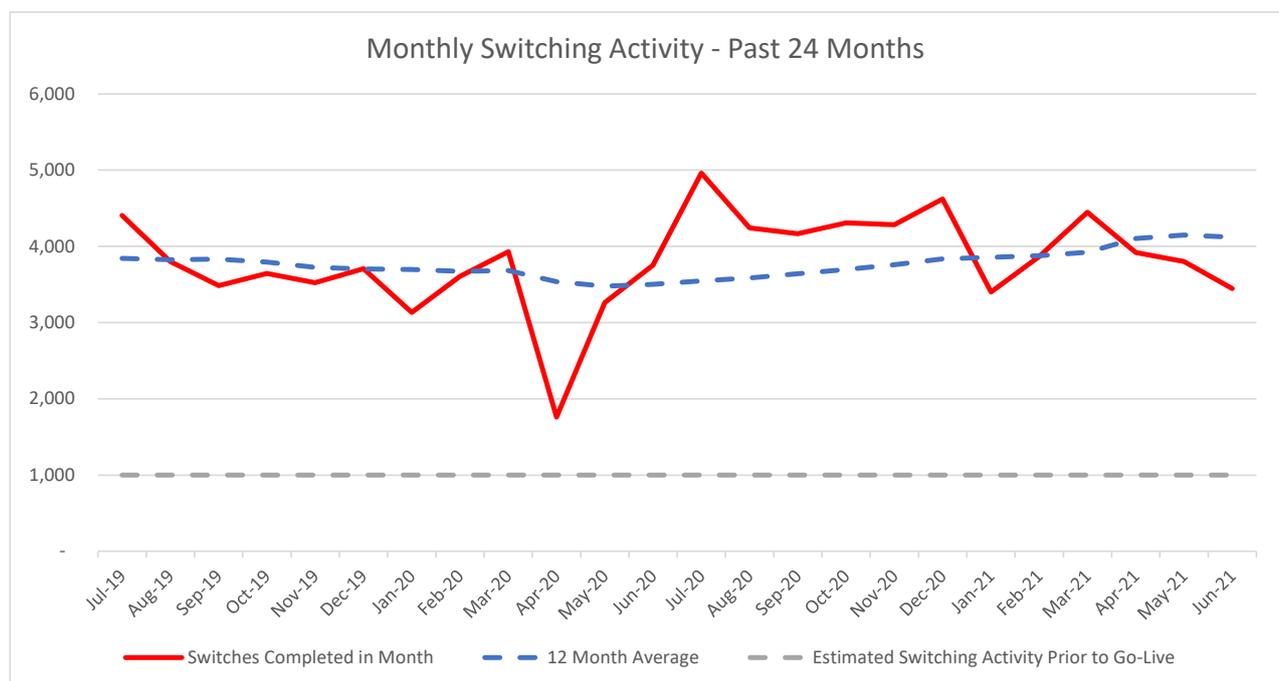
The contractual arrangement demonstrates the crucial role Methanex has in security of electricity supply. Gas Industry Company congratulated both Genesis and Methanex on the agreement as it will be a challenging business arrangement for both parties while it provides some short term benefit across the energy sector.

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, switching activity has been elevated. There were an average of 4,122 switches completed per month, which translates to an annual churn rate of about 17 percent.

	April	May	June
2020	1760	3263	3752
2021	3919	3800	3447



Around 76 per cent of consumer switches are completed within three business days and 98 per cent are completed within seven business days.

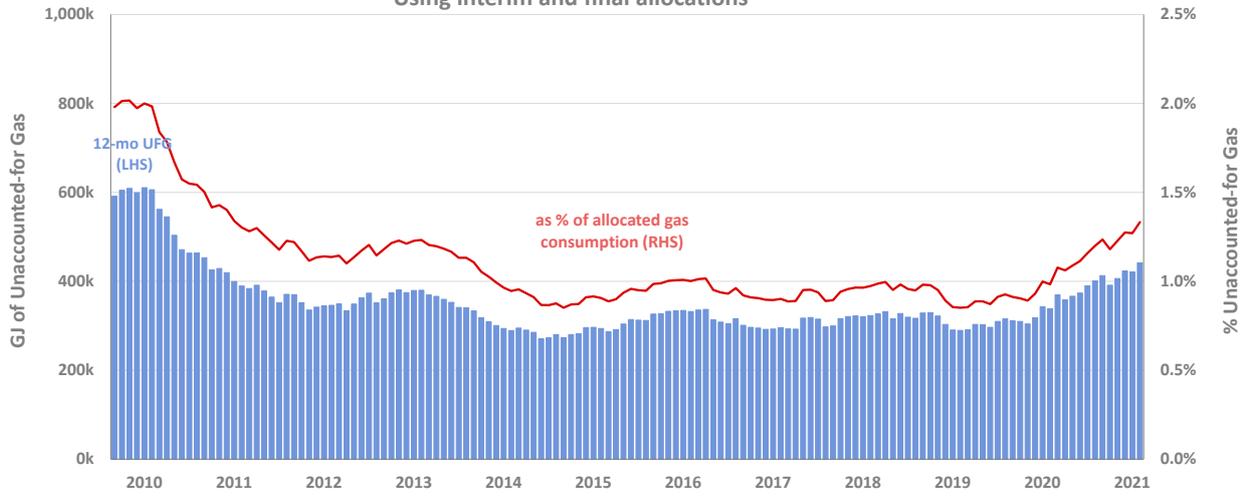
This is a substantial improvement over 2009, when only 39 per cent of switches were completed within three business days and 50 per cent within seven.

Unaccounted for gas

'Unaccounted for gas' (UFG) is the difference between metered volumes of gas entering and leaving the transmission and distributions systems. In 2009, UFG was around 2 per cent of delivered gas volumes. The introduction of improved reconciliation arrangements and audits has helped to reduce UFG levels to between 1.0 and 1.5% over the last ten years.

While UFG levels remain very low by international standards, we have noticed an uptick over the last 18 months. Gas Industry Co has begun an investigation to identify the specific causes. UFG typically arises from retailer estimation errors and metering or energy conversion inaccuracies. Due to the odourisation of gas in downstream networks, UFG is rarely a result of gas leaks.

Annual unaccounted-for gas by volume and percentage Using interim and final allocations



2. Our Work in Progress

Gas Market Settings Investigation Consultation Paper submissions received

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 and to net zero carbon emissions by 2050. The project was initiated when the Minister of Energy and Resources wrote to Gas Industry Company asking for an investigation.

Gas Industry Company has met with key stakeholders across the industry, a consultation paper was released in May and submissions closed on Thursday 24 June. We are reviewing submissions and working on final report back, expected to be delivered in August.

In addition to the Concept Consulting Gas Supply and Demand study, mentioned above in this Report, we have also commissioned supporting work on what other options could support the transition. This analysis is expected to be finalised over coming weeks.

Gas in a Renewables Rich Future

Another piece of supporting analysis for the Gas Market Settings Investigation is set out in a report on Gas in a Renewables Rich Future.

It provides insight into the business model and investment framework of the gas industry out to 2035.

The report has recently been completed and we intend to publish it in July. It highlights complexities in providing flexible gas supply for gas-fired electricity generation in only dry years.

The GIC Statement of Intent for the next three financial years published

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 was gazetted and published on our website on 1 July 2021.

Extending the Electricity Price Review's Final Recommendations to the Gas Market

In November 2020 Gas Industry Company established a workstream to investigate the application of the 32 Electricity Price Review (EPR) recommendations to the gas market. Gas Industry Company consulted on these Electricity Price Review recommendations and published its final recommendations on 8 March 2021.

Gas Industry Company is now developing new gas market guidelines for:

- dealing with vulnerable gas consumers;
- raising gas consumer awareness of the Utilities Disputes and Powerswitch services; and
- managing saves and winbacks behaviour in the gas market.

For consistency and efficiency, these new gas market guidelines are aligned closely with corresponding guidelines that apply to the electricity market.

Submissions on the draft guidelines are due by 13 July 2021.

Information Disclosure papers under development

Gas Industry Company is developing a Statement of Proposal (SOP) for gas production and storage facility outage information disclosure. The content of this SOP incorporates feedback received on a draft paper (submissions were received on this paper in March). We are planning to release the SOP for a further round of consultation in August.

Gas Industry Company is developing separate papers on two issues where it was considered 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.

Advanced Gas Metering Work Programme

Genesis Energy is working with Vector Metering on the rollout of advanced gas metering to Genesis natural gas customers. In response to this rollout, we have restarted our work programme into the gas market implications of advanced metering. Our current focus is an issues identification process involving discussions with Genesis, Vector Metering and other market participants.

D+1

For the last six years, Gas Industry Company has operated a pilot D+1 model which provides retailers/shippers with an estimate of their customers' consumption at each gas network the day after gas has flowed. We are now proceeding with a project to replace the pilot model with a more robust and formalised set of D+1 arrangements.

The first phase of the project was to transition daily operation and hosting of the pilot model to EMS, a subsidiary of Transpower. This phase was completed in early July.

The next phases of the project are to replace the pilot model with a production-quality system and consider amendments to the Gas (Downstream Reconciliation) Rules 2008 to incorporate daily allocations. This work will be supported by the Daily Allocation Working Group.

Critical Contingency Operator

Gas Industry Company is required to appoint service providers to perform various roles under gas governance arrangements. The term of the current Critical Contingency Operator (CCO), appointed under the Gas Governance (Critical Contingency Management) Regulations 2008, expires on 1 March 2022. We expect to begin an open market procurement process for the CCO role in July 2021.

GAS INDUSTRY INSIGHTS

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

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 or head to our website www.gasindustry.co.nz

UPCOMING EVENTS CALENDAR

What	When	Notes
Gas Market Settings Investigation final paper release	August 2021	
Annual Report published	30 September 2021	
Co-regulatory forum	November 2021	