

# Quarterly Report: June 24

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**Gas Industry Co is the home of New Zealand's gas governance, advice and data.**

We are the industry co-regulator, working with industry and government for safe, efficient, reliable, fair, and sustainable gas delivery.

The Government Policy Statement on Gas Governance requires us to report quarterly to the Minister for Energy on our progress towards meeting the Government's objectives and outcomes for the gas industry and any ministerial requests that may arise from time to time. This quarterly report is provided to meet that requirement.

This report reflects on activities for the second quarter of 2024.

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## Gas today

New Zealand's energy markets are stressed.

Fuel shortages are affecting gas consumers, restricting availability and driving up prices.

Electricity generation has a high need for gas because hydro lake levels are well below average for this time of year. Extra demand from power generation is occurring at a time when gas fields can deliver significantly less gas than a year ago.

We are aware of gas consumers who have been unable to find a supplier willing to contract gas supply.

Higher prices cannot deliver enough additional energy in the short term. The shortfall between demand and supply can only be met by reducing demand. The large industrial sector has made significant reductions in gas consumption releasing contracted gas to electricity generators and gas retailers. However, we are aware of higher prices impacting the attractiveness for some consumers of gas made available through this route.

Little further demand reduction is available from industrial gas consumption. The next largest gas consumption sector is electricity, suggesting further demand reduction from large electricity consumers reducing load will need to occur if market conditions continue. Gas users electrifying will not reduce stress on the energy system in the short or medium term because marginal electricity generation is needed from gas.

We expect stressed market conditions to continue next year, and potentially into 2026 as well, with the level of stress determined by results from development drilling and hydro lake levels.

Solutions are available to the energy sector and involve existing technology and capabilities. Investment will be needed, which will require multiple parties working together to contract, build infrastructure and manage the risk involved in developing more gas supply.

Strategies for bringing more gas to market, and making more flexible supply available, are a focus of gas security work. While the industry is working constructively through the Government's Gas Security Response Working Group, there are few options to increase gas volumes this year.

### Update on Gas Security Working Group

The [Gas Security Response Group](#), which was established following our [March quarterly report](#) to you, is working to resolve gas supply constraints through a range of workstreams focused on shorter- and longer-term initiatives to bring more gas to market and manage demand. We are facilitating several workstreams.

Industry is cooperating constructively in the process, with motivated contributions to developing potential solutions. Industry representative groups have independently shared perspectives about the current gas market constraints, which we have found helpful.

Those views have been inputted into our assessment of feasible alternatives and advice. We would like to thank the wider energy sector for its valuable cooperation.

MBIE, as chair of the Gas Security Response Group, reports on the Group's work.

## Supply and demand data

We commission a regular assessment of supply and demand scenarios.

Our [2023 study](#) by EY warned that the commercial environment is creating challenges for bringing new natural gas supply to market and demand may not be met.

EY has been re-contracted to prepare an updated study. It will use a scenarios-based method to analyse potential outcomes. The scenarios will model likely outcomes in response to possible market conditions.

This year's scenarios will investigate:

- the market impacts of LNG imports
- petrochemical demand reduction
- expected conditions if existing supply and demand paths do not change.

The study is expected to be ready for public release around early October.

## Future of emsTradepoint

In early June this year, Transpower announced it would exit its wholesale gas trading platform emsTradepoint. It set up a sales process for the business and announced it had received several expressions of interest.

The trading platform is crucial to an efficient gas market. Although only a small percentage of gas is traded on the emsTradepoint spot market, it is used by consumers who do not have gas supply contracts or cannot get them. If the market were to close with no alternative, wholesale buyers would be forced to negotiate bilateral contracts at a time when few new bilateral contracts are available.

The platform is also used for commercial balancing of the daily difference between volumes of gas injected into the system and volumes sold.

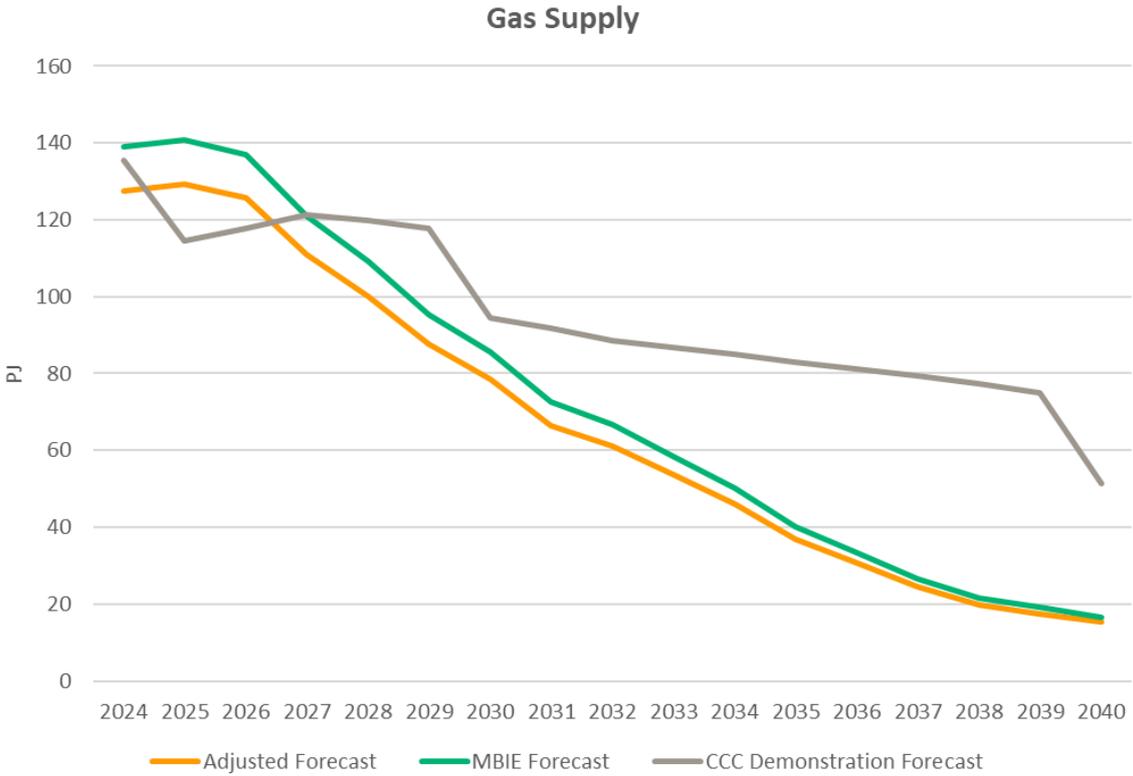
We welcome an outcome that secures the trading platform into the future.

# Gas industry data insights

## Gas supply

Our adjusted projection for gas supply shows gas volumes are in decline and are projected to decrease steadily until 2040. Gas supply volumes are tracking well below the Climate Commission’s Demonstration Pathway, which estimated production volumes consistent with reaching Net Zero.

MBIE reported in July 2024 that it expects the next three years of natural gas reserves to produce 10PJ less than recent demand levels, and that supply would fall below demand.



In the graph above:

- the orange line (Adjusted Forecast) takes the difference between actual year-to-date production and the MBIE forecast and assumes this difference to continue
- the green line (MBIE Forecast) shows MBIE's projected gas production across all fields out to 2040
- the grey line shows the Climate Commission’s Demonstration Pathway.

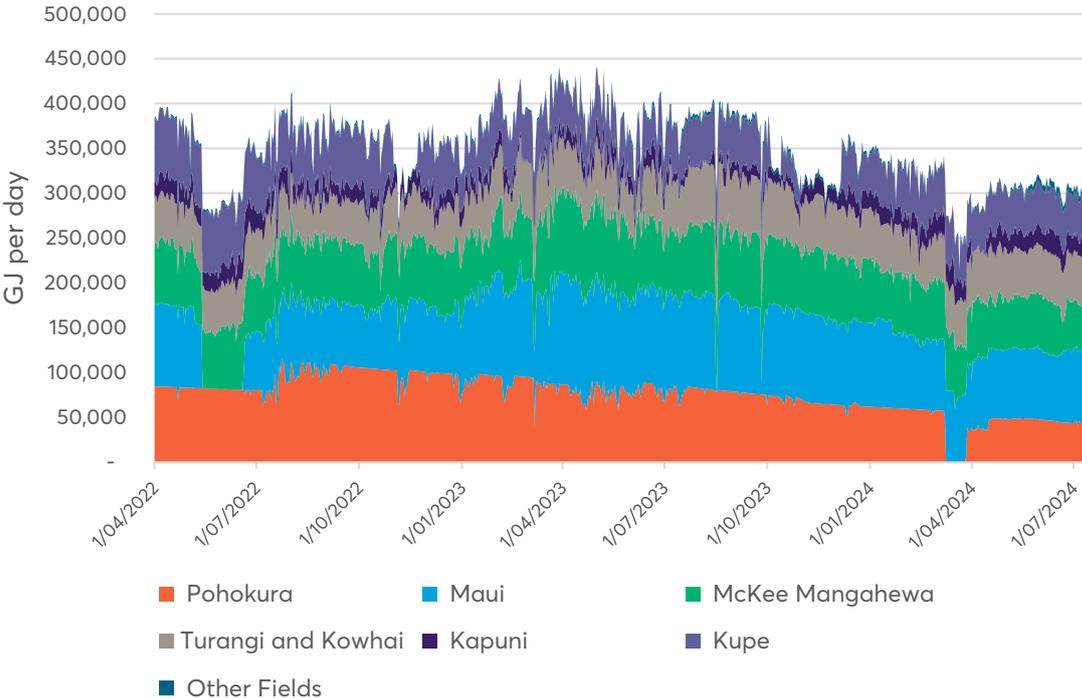
The adjusted projection is based on the most current information available to Gas Industry Co at the time of publication.

## Gas production

Production during the June quarter has remained steady across all fields. Compared with 2023, however, it is down significantly due to 12 months of decline across most fields. New Zealand's two largest gas-producing fields, Maui and Pohokura, decreased the most.

Although production this year has been steady, total calendar --year-to-date gas production into open access pipelines was only 58.8PJ. This is down 20% compared with 73.7PJ in the previous year.

Daily Gas Production by Field

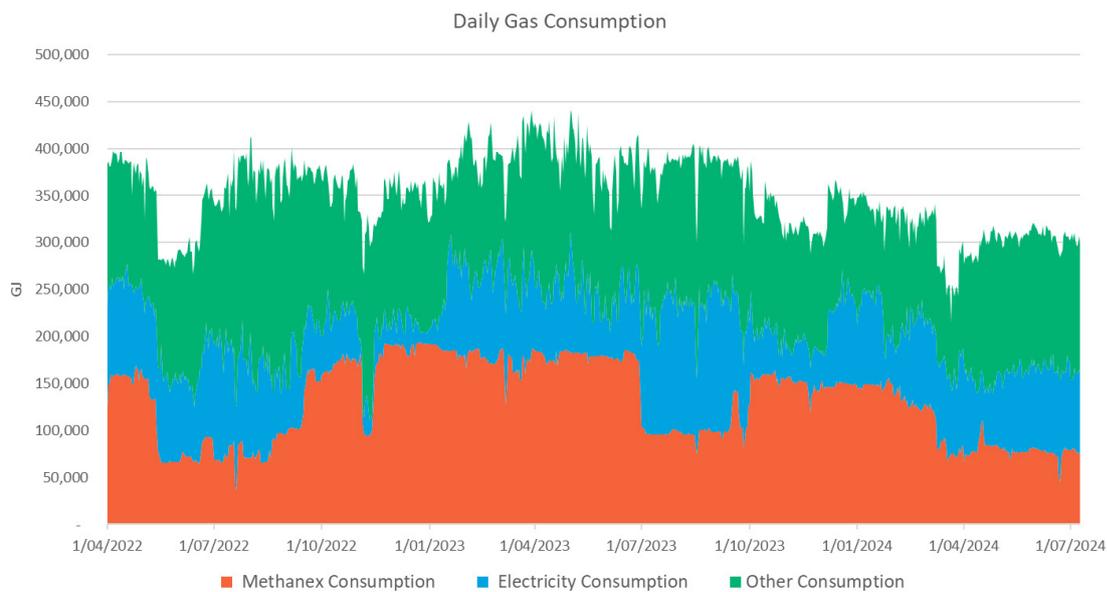


*\*Excludes gas sold through private pipelines.*

## Gas consumption

The graph below shows that although gas consumption this quarter has remained steady, it was down 22% overall compared with the previous year. Gas consumption by Methanex reduced by more than half.

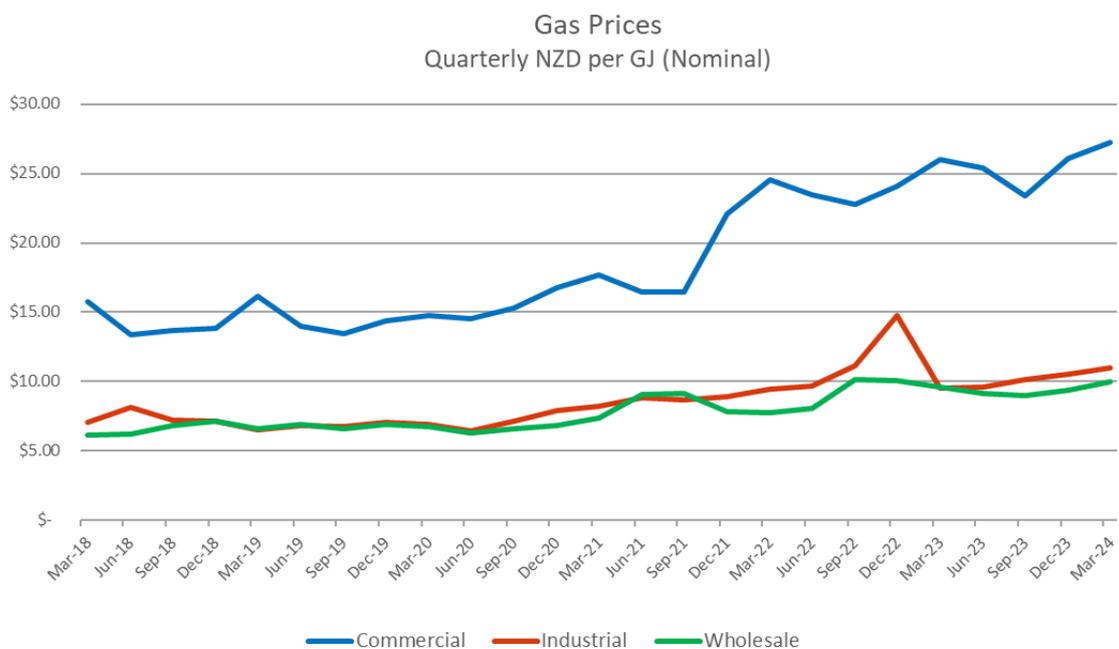
In contrast, gas consumed for electricity generation increased by 10% compared with the same quarter in 2023. Prioritisation of gas for electricity also occurred in this quarter.



## Commercial and industrial prices have increased over the past year

The upward price trend of the previous 12 months continues for all gas use types. These prices are representative of total natural gas produced in New Zealand and exclude GST.

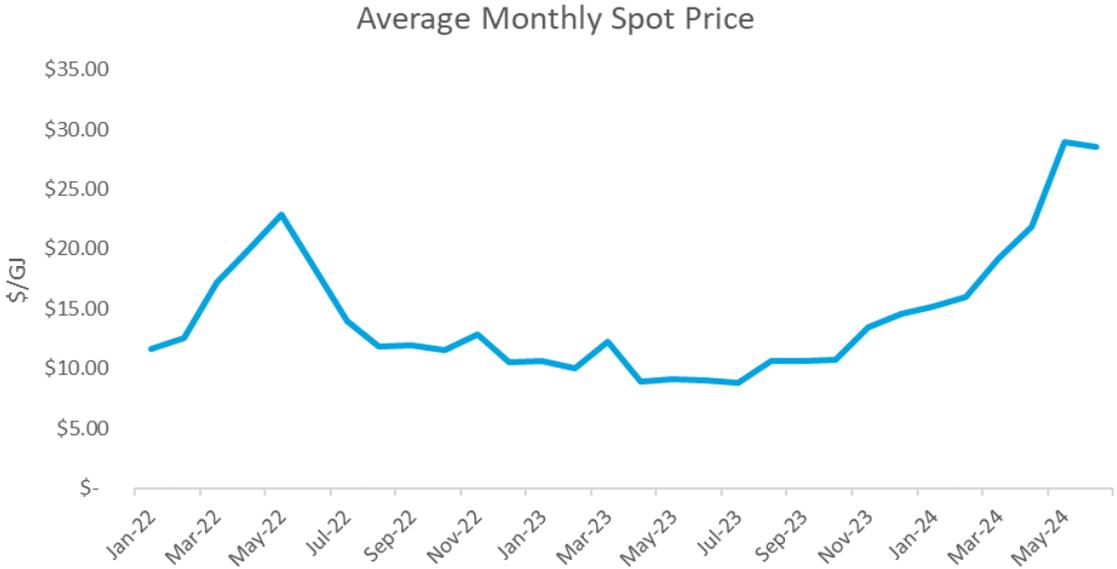
Around 95% of gas is traded via long-term bilateral contracts. The graph below shows that commercial contract prices are rising faster. Average commercial contract durations are shorter and are likely to be affected by current market conditions.



## Monthly Spot Prices

This graph shows the spot price per month of gas delivered via emstradepoint. This includes daily trades and forward prices and covers approximately 4% of the total gas produced. These prices exclude GST but include carbon costs.

Spot market prices have increased significantly during 2024. This reflects tight market conditions and supply uncertainty.



## Quarterly data

### Residential switching annual churn rate of 15%

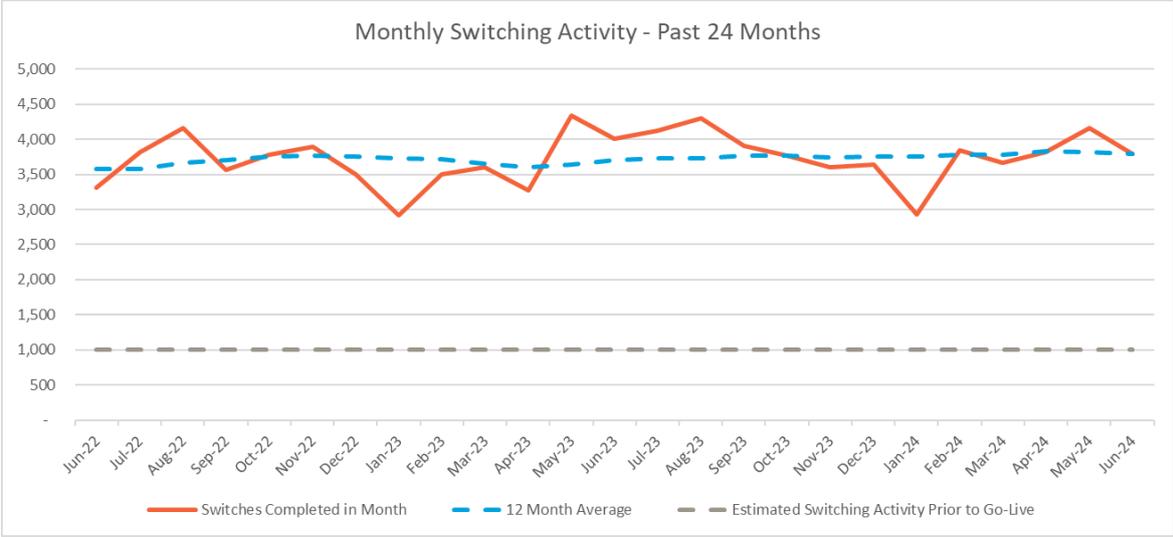
The Switching Rules contain a set of gas switching and registry arrangements that let consumers choose between competing retailers.

A high level of switching activity (“churn rate”) in a retail market suggests customers find changing retailers easy. This, in turn, puts pressure on retailers to offer competitive terms and pricing.

Over the past 12 months (May 23 to June 24) an average of 3,797 switches per month were completed, which translates to an annual churn rate (rate of switching) of about 15%.

On average, switches are completed within three business days.

	April	May	June
<b>2024</b>	2,689	2,706	2,606
<b>2023</b>	2,606	2,706	3,081



# Robin Hill

## A tribute to our former Board Deputy Chair

It was with great sadness we learned of the recent passing of Robin Hill, who served as an independent director and deputy chair on our board from 2004 until his retirement in 2023.

Robin had an extensive background in financial and business management. He was Chairman and Chief Executive of PwC New Zealand from 1992 to 2003.

He made an invaluable contribution to New Zealand's energy sector. His service to Gas Industry Co helped to guide it for nearly two decades from its establishment years. Robin took responsibility for financial governance of the company and provided valuable insight for the gas sector's development.

The gas sector, and all who served with Robin, will remember him fondly. With his family we mourn his passing.

E rangitira o te rā.

Ko koe te matapoporetanga o te iwi.

Haere atu rā koe.

Haere ki wa mamao.

Moe mai rā.



# Our work in progress

## 2024 levy now in force

The FY2025 levy came into force on 1 July 2024.

As you know from our Recommendation, the retail levy of \$6.53 is down from \$6.54 in FY2024, which is a 0.19% decrease.

The wholesale levy of 1.5952 cents per gigajoule is up from 1.4326 cents per gigajoule in FY2024 – an 11.35% increase.

[Gas \(Levy of Industry Participants\) Regulations 2024 \(Legislation.govt.nz\)](#)

## Good progress on biomethane

Three biomethane initiatives have paved the way for biomethane's viability as a gas alternative.

The first is Standards New Zealand's publication of an interim [NZS5442 gas quality standard](#) to be consistent with biomethane injection into the reticulated gas distribution network.

We worked with Standards New Zealand to revise the standard so that it now includes test methods and frequencies for biomethane and to amend the limits for certain gas components such as oxygen and contaminants.

The Standard's release is also consistent with a commercial arrangement between Clarus and Ecogas to inject biomethane into the Clarus transmission pipeline. The excess biomethane produced at an Ecogas food waste-to-bioenergy facility at Reporoa will be injected into the transmission system for supply to gas consumers in the Taupo and Reporoa region.

Finally, Powerco has announced two joint venture projects — one with Manawatu District Council, and another with a private landfill operator near Marton. Those projects will assess the viability of using biogas that is currently being flared and instead supplying it into the pipeline network.

## Recommendation to the Minister to make changes to the Gas Governance (Critical Contingency Management) Regulations 2008

In the first quarter of this year, we consulted on changes to the Gas Governance (Critical Contingency Management) Regulations 2008 to ensure they remain fit for purpose.

After considering all submissions, we recommended to you on 2 August 2024 changes to the regulations to increase efficiency and effectiveness and adjust the framework to make the system more resilient. We also recommended not to revoke, replace, or amend the urgent Regulation change related to the removal of the Taupo/Broadlands gas gates from the critical contingency threshold limits.

[Read recommendation on CCM Regulations \(Gas Industry website\)](#)

## Critical Contingency Operator exercise

This year's annual Critical Contingency Operator (CCO), Exercise Hanguru, took place on 15 May 2024 to test the Firstgas Critical Contingency Management Plan and retailer emergency contacts.

Exercises are held annually to test emergency systems and processes. Critical contingency events are events that cause loss of pressure on a part of the transmission network at a rate that could threaten the supply to distribution networks.

Exercise Hanguru simulated a loss of production from the Maui and Kupe Production Stations after an earthquake.

The CCO is required to review the exercise. It concluded that the industry is prepared and able to respond to a critical contingency event. It made 14 recommendations for ongoing improvements. A full report on Exercise Hanguru is [available on the CCO's website](#).

## Retail Gas Contracts are generally working well

In April, we opened a consultation to review the Retail Gas Contracts Oversight Scheme Benchmarks and Reasonable Consumer Expectations (RCEs).

The scheme assesses standard published gas contracts against a set of benchmarks and reasonable consumer expectations.

We sought stakeholders' views on the scheme's benchmarks and our interpretation of those benchmarks and RCEs.

Submitters generally agreed that the scheme, including the benchmarks and RCEs, are fit for purpose and that no substantive change is needed.

We are currently analysing the three submissions — from Nova, Hanergy and Utilities Disputes, and will then consider next steps including the timing and form of any proposed changes to the scheme. Any changes will be subject to our governance and consultation processes and also informed by changes in the electricity consumer care guidelines as appropriate.

Since the scheme was independently reviewed in 2023, we have continued to engage with gas retailers on their progress with their corrective actions.

Generally, retailers appear to be making good progress, including trying to improve the consumer-friendliness of their retail contracts where possible.

## Consultation on monthly read requirements for allocation group 4 ICPs

In May, we opened consultation about whether monthly read requirements are still fit for purpose for allocation group 4 (AG4) customers. Those are customers with non-time-of-use meters that use between 250GJ and 10TJ of gas per year.

Our paper explained the rationale for consulting on this rule, proposed some options and sought industry views to inform our decision on whether to keep monthly read requirements or change them.

Submissions closed on 14 June 2024. We received one submission from Nova.

## Performance audits improvements

Currently five performance audits are underway across retailers, meter owners and distributors. We arrange these audits at regular intervals under the Gas (Downstream Reconciliation) Rules 2008 and the Gas (Switching Arrangements) Rules 2008.

The current audit cycle began in September 2023. To date, general compliance remains good, which is like the previous audit cycle.

We changed our approach to performance audits for this cycle. We now allow participants to comment on resolution timeframes for alleged breaches and address contextual questions to help the auditor and the market administrator. Previously, this was a follow-up step.

This change has made it faster for the Market Administrator to consider and determine the materiality of alleged breaches.



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Daily gas production by major gas fields

- Consumption by largest users
- Data about volumes of gas in storage
- Average quarterly gas prices and supply

## About us

Gas Industry Co is the industry body that co-regulates gas so New Zealanders enjoy safe, efficient, fair, reliable, and environmentally sustainable gas delivery.

We work closely with industry and regulatory agencies to develop arrangements and regulations. We provide data and trusted advice to industry and government.

### More information

To get in touch or to find out more about the work we do, contact us:

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Visit our website: [www.gasindustry.co.nz](http://www.gasindustry.co.nz)