
Quarterly Report

September 2024

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 third quarter of 2024.

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Gas today

New Zealand's energy markets are stressed and are expected to remain so well into 2025.

The Methanex arrangement with Contact and Genesis, recent rainfall, and an increase in wind generation have reduced the immediate pressure on gas supply. However, the current position is not sustainable, and this short-term improvement must not lessen efforts to secure long-term supply.

Fuel shortages have impacted gas consumers, with limited availability and increased prices. Some industrial customers have been able to secure gas contracts for the next one or two years, however the price through to 2025 remains elevated. Some commercial and small industrial customers are yet to secure gas supply for 2025, and there has been a preference for supplying gas under contracts bundled with electricity. The industry has mostly stepped up and the number of customers that remain uncontracted is reducing.

The issues securing gas have seen some customers seeking alternative energy options and Methanex has consulted with staff on moving to a one-plant operation "for the foreseeable future" to match the current gas outlook.

Several well-publicised businesses have reduced production or completely closed, with personal impacts for the individuals involved and economic consequences for provinces where alternative employment is limited. This deindustrialisation is concerning with implications for the broader New Zealand economy and employment.

The current outlook remains unclear with Methanex working through decisions on future operations, and no agreement reached between them and thermal generators for the release of gas in winters 2025 and 2026 for electricity generation. This agreement would ease pressure on prices, lake levels, and lessen gas supply issues for industrial customers. We will continue to engage with these parties to encourage completion of this agreement as soon as possible. This will be particularly important in 2025, with the two largest demand response options at the Tiwai Point smelter unavailable.

While the reduction in pressure in the near term is welcome, it does not resolve the structural issues that are preventing the gas industry from securing supply in the longer term. Solutions to structural issues in the energy sector are needed and the industry is working through the MBIE-led Gas Security of Supply Working Group to investigate options. The key workstreams remain: early establishment of a 2025/26 Methanex solution, importing LNG to increase flexibility, fuel security and to wean the electricity sector off their reliance on gas used by industrial customers for cover during dry years.

Changes to the Crown Minerals Act to reverse the ban on offshore oil and gas exploration are not expected to result in the discovery and development of new gas fields in the short term. However, the proposed changes may give companies the confidence to extend the lifetime of existing gas fields by releasing more of the available gas. There is concern within the sector that proposed changes to the Act and Guidelines will not stimulate the required investment, and we are working with MBIE and industry to support this work.

LNG

Our work to support industry assessment on the feasibility of LNG imports as a long-term solution continues, and we are due to report back to the Minister in late November.

Governance groups are meeting regularly, and work is progressing to develop the commercial model, financing, technical solution and development solution to meet the May 2026 target date.

Interest from potential supply partners (LNG and equipment and service) remains strong and we continue to actively engage with these parties to manage expectations and maintain interest.

Our current assessment is that meeting the May 2026 timeline will be possible but challenging.

Gas Supply and Demand study

Work continues with EY on the 2024 Gas Supply and Demand study, which is due to be released in November. The study provides an analysis of the likely consequences to the gas market of maintaining the status quo, introducing LNG imports, Methanex leaving, and an increased use of renewable energy.

Update on Gas Security Working Group

The Gas Security Response Group has facilitated several workstreams to investigate short and longer-term options to bring more gas to market and resolve gas supply constraints.

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

Future of emsTradepoint

The emsTradepoint spot market is essential to an efficient gas market. The platform, currently managed by Transpower, enables customers without a gas supply contract to secure gas without the need for bilateral contracts. It is also used for commercial balancing of the daily differences between volumes of gas injected into the system and volumes sold.

Earlier this year, Transpower announced an intention to sell emsTradepoint, however having now stated that they were unable to find a suitable buyer, Transpower plan to keep the platform operating until at least September 2025. We consider an effective gas trading platform essential to an efficient gas market and will be investigating alternative options to ensure the continued operation of this service post September 2025, should this be required.

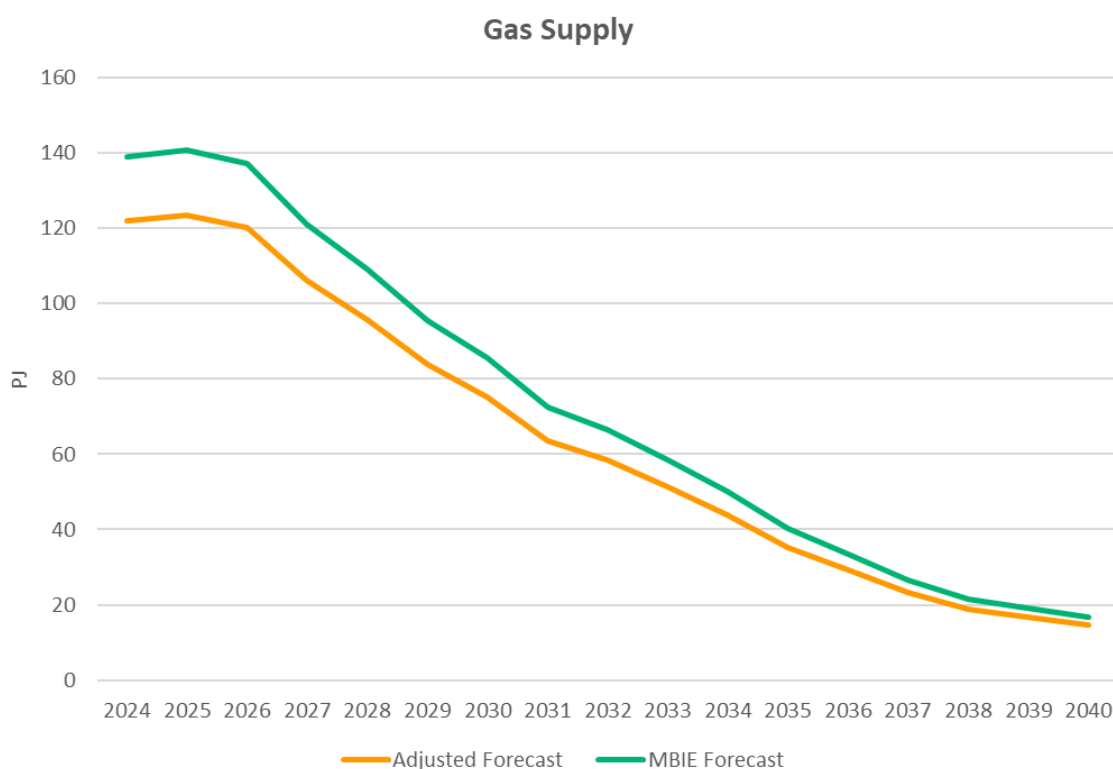
Gas industry data insights

Gas supply

Our adjusted projections indicate a steady decline in gas supply volumes through 2040, with current supply falling below recent forecasts. This trend reflects the tightening supply constraints facing the industry.

MBIE corroborated this outlook in their October report, highlighting a supply-demand imbalance:

1. Short-term shortage: For the next three years, natural gas reserves are expected to produce 10 petajoules (PJ) less than recent demand levels.
2. Demand outpacing supply: The report anticipates that gas supply will fall below demand, indicating a potential energy shortfall.



In the graph above:

- The green line (MBIE Forecast¹) shows MBIE's projected gas production from 2024 to 2040 across all fields.
- The orange line (Adjusted Forecast) takes the difference between actual year-to-date production and the MBIE forecast and assumes this difference to continue.

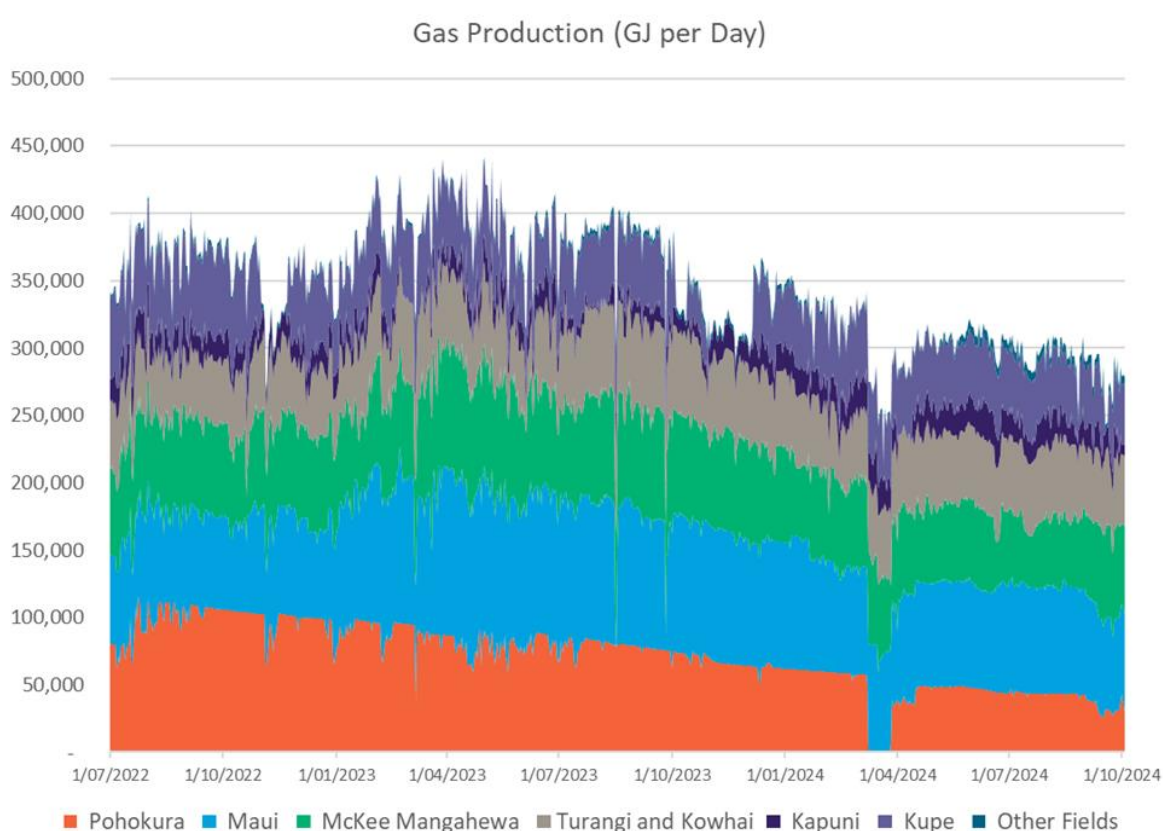
The adjusted projection is based on the most current information available to Gas Industry Co at the time of publication.

¹ Petroleum Reserves 2023 data, MBIE

Gas production

Production during the September quarter experienced a slight decline across all fields compared to the previous quarter. When compared to Q3 2023, production has decreased by 25%, reflecting a 12-month downward trend across most fields.

Production in the current year has exhibited typical fluctuations, with the most notable events being production throttling at Kupe and the temporary shutdown of Pohokura for most of March. Total calendar year-to-date gas production into open access pipelines stands at 85PJ, representing a 22% decrease from the same period last year.



*Excludes gas sold through private pipelines.

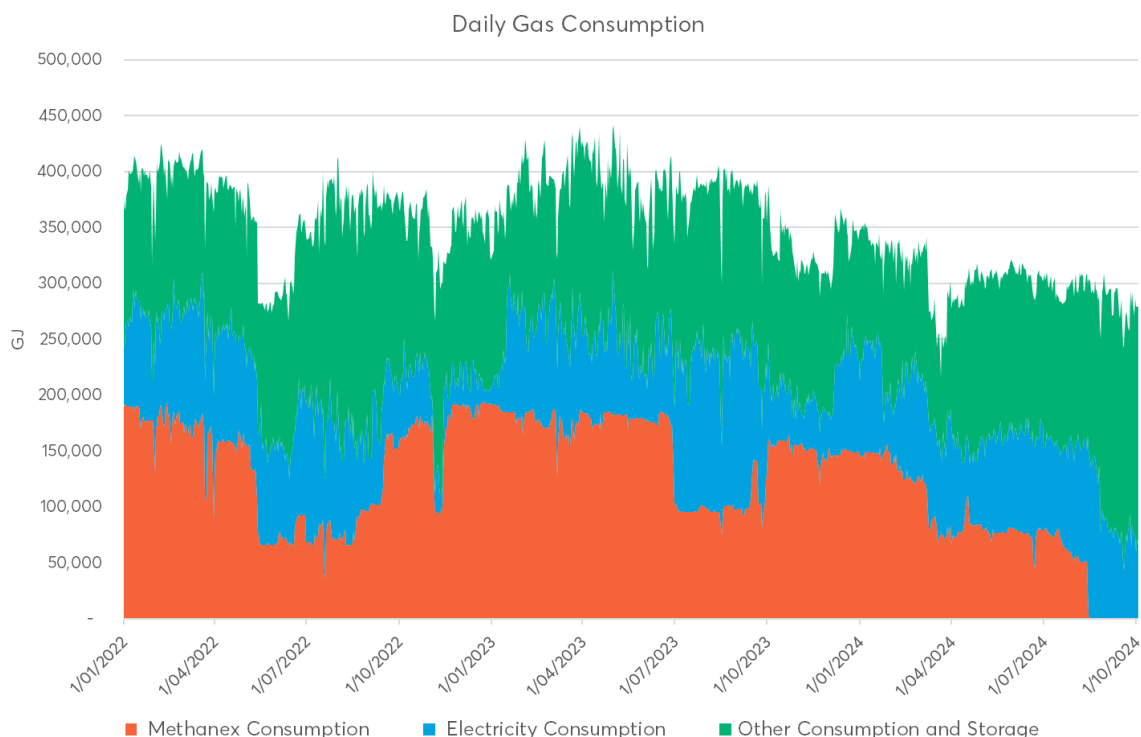
Gas consumption

Gas consumption trends this quarter show a slight downward trajectory, with a significant 25% overall decrease compared to the previous year. Notably, Methanex's year-to-date gas consumption has plummeted by 50% relative to the same period last year.

This dramatic reduction is primarily attributed to Methanex's mid-August shutdown, implemented as a demand response measure. Consequently, gas consumption shifted from Methanex to other sectors and storage facilities.

Gas utilisation for electricity generation experienced a substantial 40% decline compared to Q3 2023. This decrease can be attributed to two main factors:

1. The exceptionally high electricity demand observed in Q3 2023
2. The diminishing availability of gas for electricity generation.

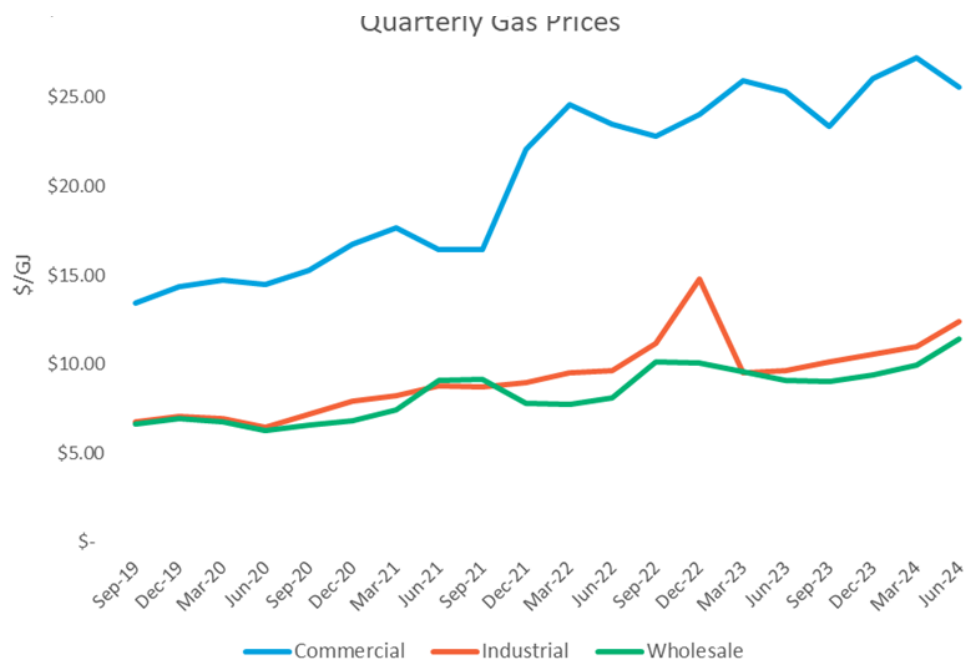


Commercial and industrial prices have increased over the past year

The following price data represents a one-quarter lag, meaning the recent price increases are not yet captured.

Commercial gas prices have trended downwards since the previous quarter while wholesale and industrial prices have trended upwards. These prices are representative of total natural gas produced in New Zealand and exclude GST.

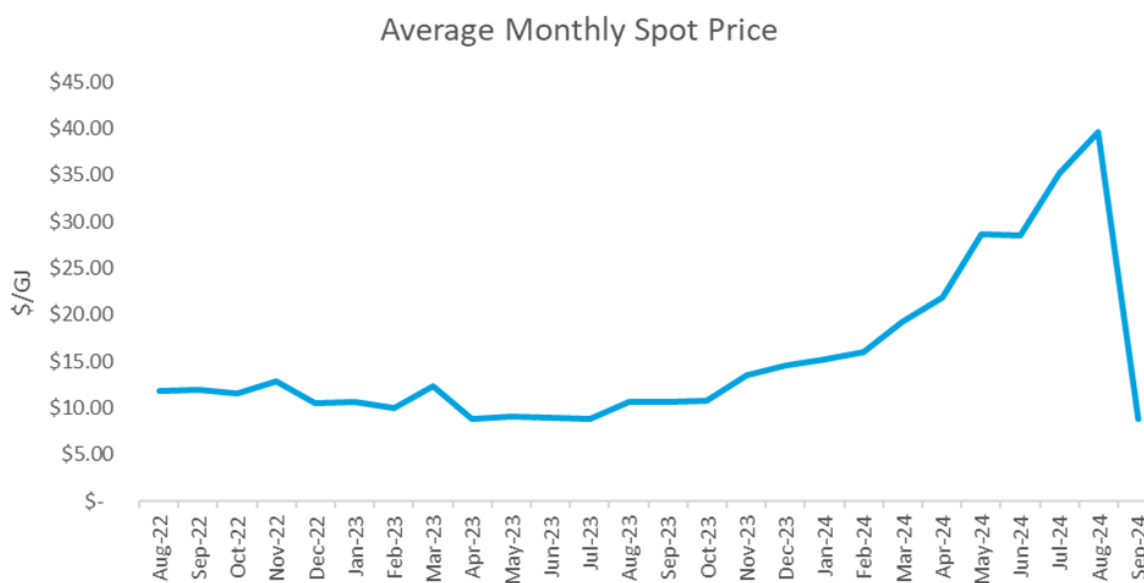
Around 95% of gas is traded via long-term bilateral contracts. Average commercial contract durations are shorter and are likely to be affected by current market conditions.



Monthly Spot Prices

The graph below 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 fallen drastically in the past month. This is driven by the large hydro inflows we have seen in the South Island. Average monthly prices are now back to their baseline.



Quarterly data

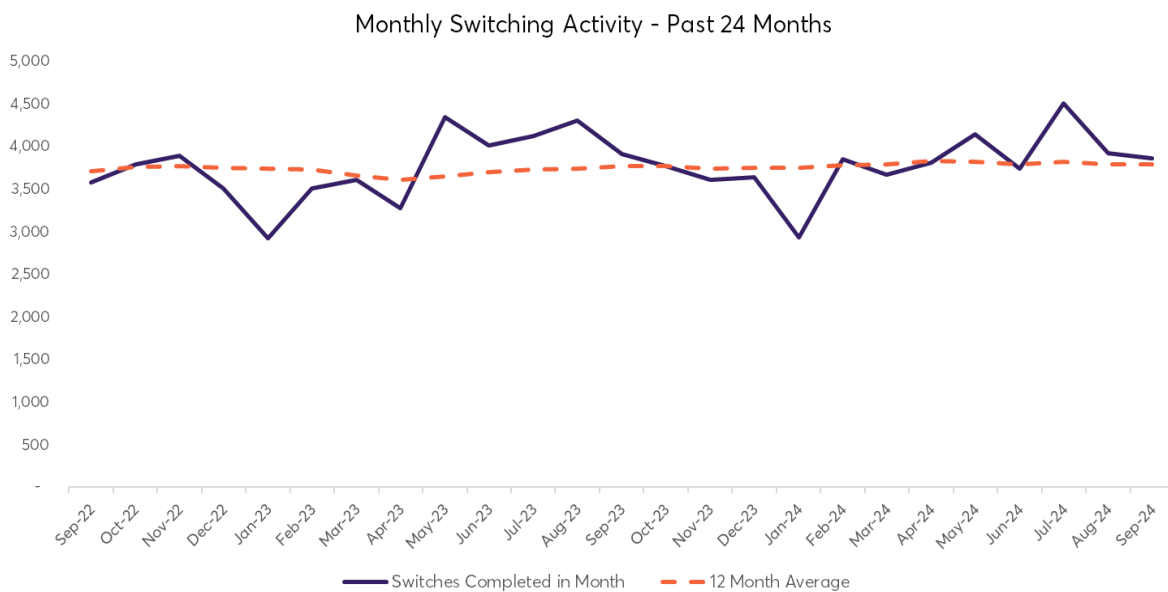
The Switching Rules contain a set of gas switching and registry arrangements that let consumers choose between competing retailers.

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 (Aug 23 to Sep 24) an average of 3,784 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.

	<i>July</i>	<i>August</i>	<i>September</i>
<i>2024</i>	2973	2541	2752
<i>2023</i>	3073	3067	2864



Our work in progress

Gas Industry Co Board Chair steps down

The Rt Hon James (Jim) Bolger resigned from his role as Board Chair at the end of September.

Jim was independent Director and Chair of the Board from the establishment of Gas Industry Co 20 years ago. He delivered the co-regulatory model from its infancy into the new context we face today. Jim's many years of service and invaluable contribution have helped to shape and sustain a well-functioning gas industry. We wish Jim all the best for his retirement.

A Board subcommittee has been convened to lead a recruitment process for the independent Director vacancy.

Annual Report

The Gas Industry Co Annual Report was published in September.

The Annual Report was delivered to the Minister, then gazetted and published on our [website](#).

Update on Biogas

Network companies have approached Gas Industry Co seeking to lift the credibility of biogas as a solution and support the uptake of a biomass market. We are assisting with advice to define roles and systems, amend regulation and develop certification, develop a market monitoring system, and the connection to distribution systems. We are coordinating with MBIE, the Bioenergy Association of NZ and EECA to scope our work.

We are also on the Biomethane/Biogas Carbon Intensity Project Steering Group. The purpose of this project is to produce an agreed methodology to standardise the approach for identifying the renewable origin of feedstocks and calculating the carbon intensity of biogas and biomethane.

Significant quantity of biogas is available, but this is currently being flared or used inefficiently by local councils in waste treatment facilities. To enable the more effective use of biogas, Emissions Trading Scheme (ETS) disincentives must be overcome, and access to required capital secured (this could be sourced privately). Development of a market could lead to innovation.

Critical Contingency Management (CCM) Recommendation

On 23 September, the Minister for Energy accepted our recommendation to amend the Gas Governance (Critical Contingency Management) Regulations 2008. These changes were designed to increase efficiency and effectiveness and make the system more resilient. Since then, we have been supporting MBIE to develop drafting instructions for the Parliamentary Counsel Office.

Gas Governance Arrangements

We expect to deliver a Recommendation to the Minister for Energy to amend the Reconciliation Rules and Switching Rules in November. This follows industry consultation completed on the Statement of Proposal: Changes to Gas Governance Arrangements. The amendments to the rules make provision for advanced gas meters, injection of renewable gases and D+1 (daily allocations).

As well as the above changes, the Statement of Proposal included some non-regulatory proposals which are now being progressed. These include functional enhancements to the gas registry and allocation system which stakeholders had supported in submissions.

Monthly read requirements for allocation group 4 meters to remain

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

Rule 29.4.2 of the Gas (Downstream Reconciliation) Rules 2008 requires monthly reads for ICPs with an expected annual consumption range from 250GJ to 10TJ and which have a non-TOU meter (ie small to medium sized commercial gas users). This rule has been in place for more than 20 years.

After reviewing the consultation feedback, we determined that the status quo should be maintained. This will leave the monthly read requirement in place and for the Market Administrator to assess the materiality of any alleged breach of r29.4.2 arising through our audit and compliance processes.

Our decision was based on the following:

1. Increased risks arising from less frequent site visits. For example, detection of meter faults and access issues.
2. There remain circumstances where non-compliance could contribute to market impact. For example, larger loads and hard-to-predict consumption profiles, which can also impact on allocations and customer billing.
3. Submissions received did not identify any material benefits associated with relaxing the rules.

Assessment of Firstgas new terms and conditions

Gas Industry Co has oversight over the terms and conditions gas distributors use to offer gas retailers access to, and use of, distribution pipelines. As part of this oversight, we assess the alignment of the terms and conditions used with a set of principles developed by Gas Industry Co in consultation with retailers and distributors, by appointing an independent assessor when terms and conditions are revised or replaced.

Firstgas recently completed a process of engagement with retailers connected to its distribution network, to develop a new set of terms and conditions for access to its gas distribution pipelines.

The new agreement adopts aspects of equivalent electricity terms and conditions and includes new concepts relating to energy transition, such as the injection of renewable gases at the

distribution network level. Following completion of the Firstgas consultation process, we appointed an independent assessor to review the new terms and conditions.

This assessment concluded that the revised terms and conditions are substantially aligned with the principles, with only minor matters preventing full alignment. This outcome is consistent with previous reviews of other distributor terms and conditions. The assessment report will be made available to stakeholders on our website.



**Relevant, comprehensive, timely
information at your fingertips**

Visit our Online Data Portal for:

- Daily gas production by major gas fields
- Gas consumption by largest users
- Gas in storage volume data
- 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:

Call us: 04 472 1800 or [email us: info@gasindustry.co.nz](mailto:info@gasindustry.co.nz)

Visit our website: www.gasindustry.co.nz