Gas Industry Company's Work Programme and Levy for FY26

CLARUS SUBMISSION TO THE GAS INDUSTRY COMPANY | 07/02/25

1. Gas Industry Company's Work Programme and Levy for FY26

Thank you for this opportunity to submit on the Gas Industry Company's (GIC) consultation on its proposed work programme and levy for it financial year 2026. We are generally supportive of the proposed work programme and levy, though we are concerned at the proposal to broaden the levy base to include LPG. Our response is focussed on the proposed content of the work programme.

There is no confidential information in this submission.

2. Investigating reallocation of the levy to include LNG, biogas and LPG

GIC proposes to investigate whether to extend the levy to include LNG, biogas and LPG, and whether legislative changes are needed to enable this. We support some investigative work on this matter, though we are extremely concerned at the tenor of the GIC's proposal with respect to LPG.

When GIC representatives have spoken about this topic, the decline of natural gas volumes is seen as important and representatives have spoken about 'broadening the levy base'. The undertone of these discussions is alarming—it can be interpreted as though the GIC's rationale is that because natural gas is in decline and LPG is growing, that LPG should contribute to the levy. This would be errant reasoning, though we are unsure what the GIC's reasoning is. The LPG industry should pay only for the portion of the GIC's costs that relate to LPG, and should do so regardless of whether volumes of LPG and natural gas are changing.

Our recommendations to GIC are set out below.

Commit to taking a cost-reflective approach with respect to the split in the levy between LPG versus all other fuels to ensure fairness and transparency. A split based on energy delivered would be distortionary because LPG forms such a trivial part of the GIC's work programme and has no need of any of the market systems (such as metering and reconciliation requirements). Furthermore, we note that reticulated LPG is specifically excluded from the scope of the Gas Act 1992 as described in section 3(2)(h).

Consider whether LNG that is physically disconnected from the rest of the market ought to attract levy at the same rate (or at all) as gas reticulated in the North Island. If an investor were to import LNG and combust it offshore on a floating gas turbine, only electricity would be coming ashore. In that case, it is not obvious what levy costs (if any) ought to be attributed to the LNG.

Define a de minimis below which the GIC will not bother to reallocate its costs among levy-payers. At present, it seems self-evident that biomethane volumes are miniscule and the administrative costs of a change would far outweigh any efficiency benefits of reallocation. If, as we suspect, LPG accounts for less than ~1% of the GIC's costs then the efficiency benefit of allocating these trivial costs to LPG may be unwarranted relative to the administrative costs involved.

Consider starting to gather and analyse data that will eventually provide evidence about what a cost-reflective split of the levy would be between LPG vs all other fuels, and the administrative costs of collecting levy from additional parties and their costs of complying. This approach will provide the necessary evidence to support a cost-reflective split of the levy and avoid attempting to collect a levy where the costs involved outweigh any improvement in allocative efficiency.

Expedite this work if an LNG project proceeds, and slow down or halt the work if current LNG investigations conclude not to proceed.

If legislative changes are needed to reallocate the levy, consider proceeding with the legislative changes even if reallocation is not presently warranted. There will be value in enabling the change as a reallocation may be justified in future.

3. The importance of a gas trading platform and the future of emsTradepoint

We agree with the GIC's emphasis on how vital it is for the gas industry to have a trading platform. Accordingly, this is a crucial and time-critical piece of the GIC's work programme.

We are open-minded about how best to achieve the objective of continued availability of an open gas trading platform. Perhaps GIC purchasing it will be best in terms of negotiating position. Another option may be to establish gas trading as a market operation service provider with the fees levied being sufficient to ensure a provider's viability.

4. Gas retailing obligations and reducing undue burden on self-use shippers

GIC propose to "provide information to new entrant retailers to help them understand their obligations and the governance process." We support this information provision.

We recommend that the GIC's work developing this information should double as a stocktake of the requirements facing retailers. This stocktake should identify which requirements should apply to all retailers and which requirements are not suited to organisations that, by virtue of shipping their own gas, are classified as "retailers". Our impression is that GIC could reduce undue regulatory burden by removing obligations on this subset of retailers.

There are a handful of such shippers whose offtake relates only to their businesses (such as a gas user shipping gas for its own use, or a producer shipping its own gas for its own uses). These 'self-use shippers' are considered retailers under the GIC's downstream arrangements, even though the regulatory requirements were designed for retailers who ship gas for a large number of customers. Not all of these retailer obligations are suited for 'self-use shippers'. Removal of superfluous obligations will lower an undue regulatory burden and encourage more parties to become ‘self-use shippers’.

5. Security of supply and the role of renewable gases

We are very supportive of the planned work programme with respect to security of supply. In particular, we encourage close examination of possible “measures to bring renewable gases into the natural gas market”.

6. Consumer voice

GIC propose to “investigate the lifetime cost to residential consumers and the cost of emissions abatement of fuel switching”.

We are cautiously supportive of this work. We are unsure whether it will create materially new insight compared with existing studies. To give it the best chance of doing so, we recommend:

- Ensuring the analysis and results describe the *distribution* of customer impacts and not only the average impact.
- Ensuring the scope of the study includes small commercial customers and seeks to analyse by meaningful customer segmentation.
- Presenting not only customers’ perspective on fuel switching decisions, but also a policy-maker’s New Zealand-wide perspective. What impact does fuel switching have on other markets and infrastructures? Are the gas consumers making the switching decisions facing all the benefits and detriments of their decisions?[1]

[1] For example, Wellington Electricity have forecast an additional $2 billion of network costs by 2050 to meet demand growth. They estimate one third of the demand growth will come from electrifying gas demand. Powerco report ~66,000 gas customers in the area. The decisions of those 66,000 customers could push ~$666,000,000 of cost onto Wellington’s electricity users.