Responses to Consultation Questions

Gas Industry Co FY2027 Work Programme and Levy

Submission prepared by: Major Gas Users Inc

Contact: Len Houwers

Question	
Q1:	Do submitters agree with Gas Industry Co's assessment of the strategic context?
	The strategic context in the document is presented at a very high level, reflecting the current situation at the surface – i.e., supply constraints, emerging alternative gases, and an energy and climate policy environment that leaves the role of gas uncertain. Our submission on this point repeats much of what we stated last year, but is extended below. Central to our submission is that gas as a subset of the wider energy topic, needs an improved framing for setting the GIC's priorities. We do not disagree with them, but we offer a broader context for addressing them. 1. Energy/ **gas is not a commodity**. It should be recognised for what it is, as **a general-purpose enabling input and system service** that *activates every other input* (labour, capital, materials, information) and determines the productive capacity of every sector. Simply put, energy = work done, work done = GDP and economic welfare. Energy therefore is a *macro constraint.* 2. New Zealand is energy supply constrained domestically (including gas, coal, and oil). Other energy substitutes for gas have to be imported (coal, oil, or LNG), or the outputs created by gas services have to be outsourced (imported). Either option represents a net economic welfare loss for New Zealand. 3. The current dividing of the broader energy in economy topic leads to disconnected thinking and lack of effective coordination across all government agencies. The partitioning of the whole economic system into separate categories for different agencies to manage makes it difficult to see dependencies and path dependent outcomes that arise in complex adaptive systems (economy) and leads to incoherent policy settings[1]. 4. The central belief that gas is a commodity**,** and that markets will determine economic efficiency undermines the public value/ social service that gas provides.

[1] We consider these self-evident, but eg climate policy outcomes that impact on energy choices backfire on climate policy outcomes when they displace gas with coal import for example, or simply export industry to higher emitting countries is one example. Similarly electrification strategies that force consumers to pay more, close production, close industries, increase household energy poverty, undermine economic welfare goals.

a. Upstream (Producers), midstream (Pipelines), downstream (retailers) are interdependent in providing the gas platform service to the economy, yet as each player within this network seeks to maximise its own value in the short term, it undermines the whole value of the network they are embedded in. Cooperation, not competition, is what is needed to maximise benefits for New Zealand as a whole.
b. Economic Regulation of pipelines that purportedly seeks to promote consumer welfare, are a set of rules based on fallacy that is destroying consumer welfare[2].
c. Market power is concentrating in the gas wholesale and retail markets. In the Time of Use sector (>10 TJ pa consumption). Excessive price markups reflect this market power concentration, and contributes to inflation and other economic deadweight losses[3].
d. Private ownership and investment do not factor in public benefit and detriment, and cannot determine whether scarce resources are being efficiently allocated[4].

5. De-industrialisation is continuing, and lack of affordable delivered gas[5] is a significant contributing factor.
6. New Zealand's upstream investment environment remains fragile despite improved market signals. Implementation of policy changes has been slow, and the upstream sector has indicated that the main barriers to investment (including political uncertainty) continue to be ignored and unaddressed. Lacking an understanding of complex system behaviour, and that tipping points are not simply reversible by bringing settings to what they were before the system tipped, also means that the current policy measures, which return to previous setting, are insufficient to address system hysteresis[6].

Most of the supporting background that we described in more detail last year is largely unchanged and our concern for a disorderly transition in progress remains. MGUG's efforts since last year to address these have centred on creating public and policy awareness:

- Arguing the case for increased information symmetry in the upstream sector through MBIE's targeted consultation late last year.
- Bringing the voice of medium to small industrials to the attention of various policy agencies (GIC, MBIE, Commerce Commission).
- Challenging the Commerce Commission and Gas Pipeline Business narratives on economic stranding risk. Further explaining the economic theory fallacies underlying the argument for normal commercial risk transfer to consumers through accelerated depreciation allowances in the Commission's Building Block Methodology that raise prices to consumers.

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[2] See MGUG's submission to the Commerce Commission on their draft decision paper on DPP4 settings outlining the central fallacies of the Commerce Commission's regulatory design for gas pipeline regulation.

[3] Eg asset stranding, inefficient investment, and other premature exercises of options.

[4] For example, if a generator outbids an industrial for gas and forces it to cut production or permanently close, the price says nothing about the gain or loss in total value that include public benefit and detriment.

[5] Delivered gas includes the price of the commodity, its transport (transmission and distribution), and the consumer tariff designed by retailers and gas pipeline businesses.

[6] i.e. system paths are not reversible along the same path. To "tip back" requires greater incentives to invest than what were there before confidence collapsed.

	Our efforts to connect with political decision makers have not been as successful, and we remain concerned that officials' advice and understanding of the significance to Ministers is lost among other perceived priorities. The GIC should use its direct connections to Ministers to provide more effective debate and advocacy for the gas sector within the wider energy, commerce, and economic portfolios.
Q2:	Do submitters have any comments on the process for developing Gas Industry Co's FY2027 Work Programme and Levy?
	No. We appreciate the opportunity for the industry to be involved in shaping the GIC work programme.
Q3:	Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2027? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.
	We support the general headings and broad topics under them as reflective of the priorities as we see them. Our main input into this, is covered in our discussion in Q1. That is, the framing of the issues should be coherent within the wider system context and impacts. Considering the turnover of key staff within the GIC over the last 12 months we do suggest that our submission last year which provided more detail on the wider issues should be re-read.
Q4:	Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2027? Please provide reasons for your response.
	We trust the GIC to manage its priorities and budget.
Q5:	Gas Industry Co is particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the 85 PJ projection reasonable? If not, what would they consider an appropriate gas volume estimate to be? **NOTE – any submissions provided in response to this question will be treated as confidential and will not be published.**
	[redacted]

Q6:	Do you have any comment on the proposed levy rates for FY2026?
	No. In the scheme of delivered gas costs, the levy is not an undue burden. Rather it is the quality of the spend that we are concerned about. As outlined in this submission, a priority for the funding for us, on behalf of the wider sector, is in having a better understanding of what is currently happening in the gas sector and the implications if adverse trends are left unattended.