Responses to Consultation Questions



Gas Industry Co FY2026 Work Programme and Levy

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Questio								
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.							
	The picture, and therefore the priorities for the GIC, could become clearer by recognising the emerging outcomes that this environment is creating in heading the gas, and the broader energy market to a disorderly transition. We would therefore further add to the strategic context:							
	 The gas market has entered a market end game play¹. De-industrialisation is happening, lack of affordable delivered gas is a significant contributing factor. National energy security is also being put at risk by deteriorating confidence in the gas sector. Industry is losing the price competition for shrinking gas supply to generators prepared to pay to support their transient and contingent fuel needs. Rapid deindustrialisation is a potential outcome with clear signs emerging in the last 12 months that this may be escalating. New Zealand's upstream investment environment remains unattractive despite strong market signals to invest, and a more supportive political environment. Implementation of policy changes has been slow, and the upstream sector has indicated that the main barriers to investment continue to be ignored and unaddressed. Market power is concentrating in the gas wholesale and retail markets. In the Time of Use sector (>10 TJ pa consumption), the gas 							

¹ A "market end game play" refers to a strategic action or set of actions a company takes in a market nearing maturity or decline, aiming to maximize their position and profitability by consolidating market share, focusing on high-margin segments, or preparing for potential exit strategies like mergers or acquisitions, essentially playing to win in the final stages of a market lifecycle.

We detail the evidence on how the market has shifted to support these statements in the appendix to this template, and we briefly expand on these points below.

The policy environment for energy, and in particular for natural gas continues to reflect the 3-year electoral cycle with little political consensus that would offer policy stability over the much longer investment cycles needed to effectively monetise existing and identified gas resources, and encourage competition. There is declining to minimal interest from overseas to invest in New Zealand's upstream sector. This limits investment and competition to existing mining permits. Reserves and contingent resources available for the retail market are dominated by two vertically integrated, privately held, domestic companies, Todd/Nova, and Greymouth. There is no public transparency on their field development plans, little understanding of their internal investment criteria (including whether they face capital constrains that delay development). Competition in the wholesale market is limited, and the industrial sector and increasingly the large commercial sector, are facing a duopoly or effective monopoly market arrangements. The gas market appears increasingly distant from anything that could be characterised as fair and efficient.

Producers and monopoly gas transmission and gas networks are maximising their position and profitability while in doing so also contributing to shrinking the market further. Producer investment in bringing contingent resource to reserves appears to be phased to keep the market at the edge of scarcity, shrinking it further while raising prices to consumers who face high switching cost barriers. While the upstream and midstream concern themselves with maximising their revenues over shorter time horizons, the New Zealand industrial base is being squeezed out of the market by generators prepared to pay more for gas in order to support "just in case, and just in time" fuel for generators knowing that consumers will ultimately pay for their fuel costs. Energy intensive industrials are faced with a double blow of both rising gas costs and rising electricity costs that continue to erode their viability to operate in New Zealand.

While rising prices might seem a natural market response to shrinking supply, it's questionable whether commodity price increases are being driven by normal competitive supply and demand dynamics. Price increases can equally be reflective of the concentrating market power of vertically integrated suppliers, i.e. market competition is increasingly imperfect. For the 30 largest direct connect consumers, representing about 20 PJ pa of demand, their current supplier choice is limited to Nova or Greymouth who we estimate hold 99% of that segment between them (up from 47% in 2020). For the 305 ICPs In the Time of Use (ToU) Sector (usage >10 TJ pa) we estimate Greymouth and Nova now hold over 90% of the around 39 PJ pa market (estimated 57% in 2020).

Compounding the escalating price increases in the commodity market, are continued accelerated price increases in monopoly gas transport providers. The capped total revenue is increasingly transferred to recovery through fixed connection charges meaning that consumers have little control over reducing their spend on their gas fuel bill unless they disconnect completely. In what is now apparent as a self-fulfilling prophecy, the impact of the Commerce Commission decision to accelerate pipeline revenues can be clearly seen in the connection data. Since the start of DPP3, constant connection growth has shifted to connection decline. Increasing surplus capacity in pipeline services in competitive environments should be delivering lower prices. Instead, prices are not only increasing, but increasingly demand risk is being shifted onto consumers through pricing mechanisms that recover more revenue through higher fixed charges for connections. Consumers face barriers to disconnecting because of capital replacement costs and high disconnection fees. New connections are discouraged by removal of policies that socialised the cost in order to grow the market and reduce consumer charges.

The conditions for a disorderly transition appear to have already started to take hold. The question that remains is whether regulators (GIC, Commerce Commission, MBIE) are prepared to use the policy levers they already hold to stabilise the course that the gas market is currently on.

Q2: Do submitters have any comments on the process for developing Gas Industry Co's FY2024 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 FY2026? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.

Ref: GPS - 7, 9, 11

Much of the tone of the proposed work programme suggests a BAU for the gas market, or at least one that assumes that an orderly transition is underway. We disagree with this view. Our concern is that the gas market is progressing to a disorderly transition and that this requires all the regulators; GIC, Commerce Commission, and MBIE, to take a stronger interest in understanding how and where the market is failing in order to intervene with regulatory setting adjustments that mitigate against this outcome.

1. The GIC supply and demand studies don't provide any insight into the broader system effects (energy, economy) of a deindustrialisation trend, and therefore don't uncover the wider economic risks this represents. For example, we consider the effect of a premature exit of Methanex, rather than just increasing the availability of gas as models appear to assume, will instead cause a rapid collapse of the gas sector (investment to defer offshore field abandonment will stop, transmission charges will increase, wholesale competition reduces further). A collapse in the gas sector will affect the electricity sector (rising expenditures and prices). Service sector capacity is also reduced for other operators, etc. We propose that the GIC (or MBIE) model the economic impacts of a collapsing gas market to better understand the supply and demand models, and the wider consequences of rapid demand destruction.

2. We propose that the GIC conducts a market investigation to determine whether the gas market, particularly for the industrial and large commercial sector can be considered fair and efficient, and if not, what actions should be taken to return outcomes to those

seen in competitive markets. We suggest that this should involve surveying the 305 ToU ICPs for their experiences in recontracting for gas, and the impact of increasing gas transport charges is having on their business viability.

- 3. We would also ask that the GIC considers whether greater transparency in operators field development plans, and in nomination data would help improve information balance to level the playing field for consumers.
- 4. We would also ask that the GIC reengages with the Commerce Commission and MBIE to address the dysfunctional outcomes created by Part 4 of the Commerce Act, including revision of the definition of gas pipelines, and the methodology that permits accelerated revenues for sunk assets (an outcome that is not consistent with what happens in workably competitive markets). Rather than preventing economic asset stranding, the current settings are guaranteeing this outcome.

MGUG has commented a number of times on our concerns around the pricing of gas transport, particularly around the way that the Commerce Commission has interpreted financial capital maintenance, and how this has enabled unsustainable price increases in gas transport, as well as increasing demand risk transfer on all consumers. It is revealing in the gas connection data for example (see Appendix), that since the Commission has allowed accelerated depreciation, active contracted gas connection growth in all networks has stopped and is declining. Adding to other price pressures related to lack of competition, the burden on major users on gas transmission costs also continue to rise at unprecedented rates.

In 2024 the GIC committed to *Potentially working with the Commerce Commission regarding recommendations impacting pipeline regulation in the Gas Transition Plan.* As we understand it, the GIC has been side lined on this, and the current work on the Commerce Act announced by the Minister hasn't made Part 4 reform a priority (including a simple action of revising the definition of gas pipeline services). The Commission will start its consultation on DPP4 this year without any alterations in its thinking, effectively cementing the disorderly transition the Commission was purporting to avoid.

The two topics (gas transport and commodity pricing) are related, and the evidence of the unfolding existential problems this is creating is increasingly evident in the data, as well as the experiences of our members. In 2024 for example OJI FS announced that it would be shutting its paper mill in Kawerau in June 2025 at the end of its gas contract, as a result of unaffordable delivered gas costs. Fonterra have also announced that it will be converting gas boilers to electrode boilers in 2026.

Q4: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2026? 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 110 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.

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.

Time of Use (ToU) Market

A ToU customer (ICP) is one where annual use exceeds 10 TJ pa (approximately equivalent to consumption of 400 households). In the switching data published by the GIC, this sector is captured under the definition of "Industrial" (Table 1):

	Consumer	
Load Shedding Category Code	Category	
1	Industrial	> 15 TJ/ day
1E	Industrial	> 15 TJ/ day
2	Industrial	> 15 TJ/ day
2C	Industrial	> 15 TJ/ day
3	Industrial	> 10 TJ/yr - 15 TJ/day
3C	Industrial	> 10 TJ/yr - 15 TJ/day
4	Large Commercial	>250 GJ/yr - 10 TJ/day
5	Large Commercial	> 2TJ pa (essential service)
6	Small Commercial	< 250 GJ pa
7	Small Commercial	critical care designation
DOM	Residential	

Table 1: Consumer Category definition (source GIC)

As at 31 December 2024 there were 305 Active Connected ICPs reported as Industrial ICPs (Figure 1). Methanex is excluded from this reporting (it is not a retailer, or serviced by a retailer)

Retailer	Residential	Small Commercial	Large Commercial	Industrial	Total ▼
Genesis Energy	88,661	3,099	1,280	71	93,111
Mercury Energy	88,121	563	122	3	88,809
Contact Energy	69,011	1,960	655	1	71,627
Nova Energy	22,750	4,364	3,199	183	30,496
Frank Energy	14,752	26	2		14,780
Pulse Energy	5,423	1	1		5,425
MegaTEL	2,595	245	154	1	2,995
Greymouth Gas	7	5	64	41	117
Transgas			1	4	5
Pan Pac				1	1
Total	291,320	10,263	5,478	305	307,366

Figure 1: Active ICP by consumer category as at 31 December 2024 (source: GIC)

Based on connection share, as at 1 Jan 2025, Nova has 60%, Genesis 23%, and Greymouth 13%.

The connection share has moved over time as shown by ICP split as at end December calendar year (Figure 2). In 2014 there were 643 ICPs classed as Industrial. Nova had 24%, Genesis 49%, Greymouth 3%, Contact 5%, and Ongas 18%.



Figure 2: Source GIC

Given the range of consumption at ToU meters, connection count is not a good proxy for share of gas volume. It is difficult to determine exact market share of this sector by volume, but it is estimated here using the following assumptions:

- 1. Ongas and Greymouth weren't/ aren't involved in the mass market and are assumed to have only contracted ToU customers (whether classed as retail or wholesale²).
- 2. Contact, other than at Te Rapa (until July 2024), has been absent from this segment since 2015.
- 3. Genesis Energy report their retail C&I ToU gas volumes quarterly giving a precise number. Genesis wholesale ToU can be inferred from direct connect gates.
- 4. Mercury/ Trustpower reserve its gas book principally to support their mass market electricity customers. We assume the 3 ToU customers shown are relatively inconsequential (they don't appear in the direct connect data)
- 5. The retailer for Direct Connect sites is known from the GIC switching data. The volumes for these larger gates are also reported in Oatis.

This leaves the largest uncertain estimate for ToU quantity with Nova/ Megatel. Nova competes in all consumer categories. Their allocation at shared gas gates is however public, even if this is not broken down by consumer category. Average residential gas use is expected to be the same for all retailers. Assuming 25 GJ per household an adjustment can be made to Nova/Megatel's total at allocated gates. While this will likely overestimate Nova's volume allowed for Industrial allocation, we are mainly concerned with illustrating how relative market share has changed.

We've taken the connection data at two points in time; Jan 2021 (effectively for 2020 year), and as at 1 Jan 2025 (ie 2024 year). The results are given in Table 2 and Figure 3.

In summary:

- 1. In 2020 there were 5 retailers competing in the ToU market with two largest retailers (Nova, Greymouth) having 57% of that segment.
- 2. In 2024 there were 4³ retailers competing in the ToU market with two largest retailers (Nova, Greymouth) having 91% of that segment.

² The definition of "wholesale" varies depending on the retailer

³ PanPacific is not a retailer, rather it is a shipper for its own gas at the Hastings gate.

- 3. In 2020 at the largest end of the ToU sector, there were 5 retailers competing in the Direct Connect market with two largest retailers (Ongas, Greymouth) having 54% of that segment.
- 4. In 2024 there were 4 retailers competing in the Direct Connect market with two largest retailers (Nova, Greymouth) having close to 100% of that segment.

Retailer	Contact	Genesis	Greymouth	Ongas	Nova	Transgas	PanPac
Direct Connect	3,750,385	3,989,442⁵	7,318,699	5,413,031	3,224,941	0	0
Allocated	0	3,545,937	4,626,755	3,598,044	11,184,459 ⁶	0	0
Est. Total ToU 2020	3,750,385	7,535,380	11,945,454	9,011,075	14,409,400	0	0
Direct Connect	07	57,942	8,970,048	0	9,500,693	27,922	0
Allocated	0	2,942,058	4,158,326	0	12,993,337	288,708	52,037
Est. Total Tou 2024	0	3,000,000 ⁸	13,128,373	0	22,494,030	316,631	52,037

Table 2: Retailer Market share in ToU sector (GJ)⁴

⁴ Sources: GIC switching data and Oatis/ allocation gas quantities

⁵ Includes Genesis wholesale

⁶ Adjusted for consumption in residential sector

⁷ Te Rapa cogegneration gate shifted from Contact to Nova in July 2024 – the volume for 2024 has been assigned to Nova.

⁸ Genesis Q2 (to 31 Dec 24) not yet available. 4 quarters to 30 Sep 24 used instead.



Figure 3: Direct Connect and ToU retailer market share (%)

With both Greymouth and Nova also controlling supply through their (opaque) field development plans we do not consider that the market conditions in the ToU sector are fair and efficient for consumers.

Active Connected (ACTC) demand growth.

The relatively steady growth in overall ACTC connections has stopped and has reversed. The reversal has occurred almost simultaneously in all gas networks, and is also coincident with the timing of the start of DPP3. DPP3 allowed gas networks and gas transmission to accelerate revenues, including on sunk cost assets. This resulted in double digit percentage increases in transmission and distribution costs to gas consumers. (Figure 4)



Figure 4: Source GIC