Questions

Submission prepared by: Major Gas Users Group

Question	
Q1:	Do submitters agree with Gas Industry Co's assessment of the strategic context?

We agree that the overall context is one of greater uncertainty in the confidence of forward projections of gas supply. That uncertainty has been an outcome of a policy environment that signals the marginalisation of gas in the New Zealand energy system. We would expand on this further as follows;

- While the government seems committed to developing a national energy strategy through 2022, it is still unclear what guiding principles, other than decarbonisation, will underpin its development. The acceptable trade-offs between energy security and affordability, as they impact economic and social wellbeing, against carbon zero targets lacks clarity and therefore adds uncertainty.
- More generally, the energy debate has yet to achieve a level of clarity and consensus across society/ government as to its role and contribution in achieving optimal wellbeing outcomes. While energy is often seen to operate as its own system, its *interdependencies* with other systems (e.g. food production, transport, economic/ financial, political) seems to be missing from entering into a more productive policy debate on sustainability.
- The ability to engage in this debate in turn requires an appreciation of underlying system behaviour as being complex/ adaptive. From a policy development perspective this means policy interventions create risks of unintended consequences that only emerge and are obvious with the benefit of hindsight. In order to deal with emergent properties of systems, policies need to maximise optionality, including flexibility to reverse or adapt based on emergent information. Our concern is that the consultative processes from Government do not support a more deliberative process to deal with these complexities which in turn leads to higher risk.
- Collectively, this policy environment can be seen to create greater political risk that is being mitigated in the private sector by reducing investment horizons in New Zealand, and by diverting capital to other jurisdictions with lower regulatory risk. This investment risk, ironically, spills over into decarbonisation opportunities for gas. For example, the opportunities for greener gases are enabled by maintaining investment in common infrastructure.

We'd like to add a further strategic context for the work programmes regarding reduced diversity in the wholesale market and its impacts on market efficiency. Market feedback reveals an increased tightness when renewing longer term bilateral gas agreements, with fewer choices for buyers (in some cases failing to receive any offers, or receiving offers from just one supplier). While this is forcing buyers to look at alternative contracting strategies to meet their needs for supply security, these are not always successful due to other constraints such as a lack of offers for monthly strip products as an alternative to building a gas book, and the difficulties in transporting

	gas across two pipeline codes for traded gas purchases which restrict supply choices. We are also concerned at the increased concentration in the wholesale market and the effects this could have on Gas Act and GPS objectives to keep downward pressure on gas prices.
Q2:	Do submitters agree with Gas Industry Co initiating and progressing the workstreams identified in the Gas Market Settings Investigation final report (detailed in section 3.2)?
	We agree broadly with the intent of the recommendations from the Gas Market Settings Investigation report to create a clearer picture for the role of gas in the energy transition, to improve information symmetry in the gas market, and to identify and remove market frictions. We do not support regulatory interventions that seek to allocate gas between different sectors of the economy. The workstream labelled Gas Transition pathway needs a broader context of its meaning within the overall energy system, rather than just being seen as a decarbonisation objective for gas. There is also a lack of clarity over what constitutes the transition timeframe. The Minister has indicated, in her letter to the GIC, that transition was in the context of keeping electricity supply secure until the electricity system reached 100% renewable by 2030. The Climate Change Commission refers to both 2035 and 2050 as transition timeframes, again in the context of reducing carbon emissions from gas. From our perspective we consider gas transition needs to be placed firmly within an overall national net emission reduction target to 2050. This widens the definition of what can be considered in gas transition to include opportunities to decarbonise coal and oil demand, as much as it does the decarbonisation of gas itself. We would also like to see the GIC act as advisor and facilitator to the industry to enable the industry to come together and develop a shared view for the role of gas in New Zealand that can act as a prior input into the GIC's workstream. We are cautious of the GIC, or any other regulator getting involved in setting commercial arrangements supporting electricity security of supply. Our submission to the recent EA report on the 2021 Dry Year Review made it clear that we are very uncomfortable with any arrangements that seek to coerce or compel the overriding of freely negotiated gas agreements between consenting parties. Rather we see the solution and onus on renewable electricity generators to address any revealed shortcomings in their Reserve Energy Scheme rather than through the interventions of regulators. We support the GIC progressing information transparency to improve planning. MGUG has sought repeatedly to have greater clarity and transparency on contingent resources in order to create better insight into what the contingency factors are, the potential gas price to develop, and likely timing to bring to reserve category. We consider that this information is not only necessary for more credible supply and demand analysis done for the GIC, but also to improve confidence in forward gas supply projections to enable businesses to better manage their capital investment programs. We believe that the GIC needs to continue to work with MBIE to update the reporting requirements on contingent resources. We support the initiative to investigate and reduce frictions in the gas market created by transmission codes in order to improve wholesale market competition. Where the gas transmission pipeline no longer seems to carry a risk of capacity constraints we believe that simpler physical and commercial arrangements for gas carriage can improve opportunities for alternative gas contracting strategies.

Q3:	Do submitters have any comments on the process for developing Gas Industry Co's FY2023 Work Programme and Levy?
	The process has been sound in our view. The co-regulatory forum was particularly useful in creating an open discussion ahead of the GIC finalising this consultation paper.
Q4:	Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2023? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.
	The Gas Act and GPS requires the GIC to " *To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner*" and among other matters requires "*Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced*". It is against these objectives that we consider that the GIC has a role in initiating and facilitating a pro-active review of the current gas specification (NZS 5442) to enable emergent lower carbon gas sources to enter the open access transmission and distribution networks. The current gas specification (NZS 5442) is not fit for purpose for a gas system that may want to transport higher volumes of hydrogen, and biogas/ biomethane. The current specification prevents these opportunities to decarbonise the gas system and acts as a source of uncertainty, and therefore risk, to decarbonisation efforts. Further flexibility may also be needed to consider different regional specifications depending on supply source locations and customer profiles (e.g. petrochemical vs gas combustion). Given that a review is likely to be lengthy, we consider it necessary to start this process in order to define what is possible and keep momentum in the gas transition pathway. While changing the gas specification is not something that the GIC has authority over, it can help commission a project with Standards New Zealand on behalf of the industry including helping form a representative industry body or committee to progress the review. As expressed in response to Q2, we also believe that in support of the Gas Market Settings report findings that the GIC needs to progress improving contingent resource reporting with MBIE in order to have greater clarity on future gas supply.
Q5:	Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2023? Please provide reasons for your response.
	We are happy with the way that the GIC has characterised its roles and justified its activities within those categories. We are also comfortable with the GIC's flexible approach to setting a fixed budget and responding and re-prioritising its work program based on updated information as the financial year progresses.
Q6:	Gas Industry Co is particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the 185 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.**

	[ALL RESPONSES TO Q6 TREATED AS CONFIDENTIAL AND NOT PUBLISHED.]
Q7:	Do you have any comment on the proposed levy rates for FY2023?
	No.