

25 January 2022

Submissions

Electricity Authority

PO Box 10041

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By email to Consult-2021DryYearReview@ea.govt.nz

2021 Dry Year Review

1. This is a submission from the Major Gas Users Group (MGUG) on the Electricity Authority 2021 Dry Year event review consultation paper.
2. MGUG was established in 2010 as a consumer voice for the interests of a number of industrial companies who are major consumers of natural gas.
3. Membership of MGUG comprises:
 - a) Ballance Agri-Nutrients Ltd
 - b) Oji Fibre Solutions (NZ) Ltd
 - c) Fonterra Co-operative Group
 - d) Goodman Fielder
 - e) New Zealand Steel Ltd
 - f) New Zealand Sugar
 - g) Refining NZ
4. In terms of domestic gas demand members consume about 30 PJ per annum of natural gas, or about 18% of the gas supplied to the market in New Zealand. Gas is generally used by our members for high temperature process heat and/or directly as a raw material input in highly capital intensive and integrated facilities.
5. Members have been consulted in the preparation of this submission. Nothing it is confidential and some members may choose to make separate submissions.

Gas reallocation conclusion needs clarification

6. We note that in developing the Martin Jenkins (MJ) report¹, the authors restricted engagement to the electricity industry including generators, Transpower, and Ministry officials. Voices for the gas industry including the Gas Industry Company and major users were kept outside of the investigation process. A lack of wider gas market participation in the investigation is disappointing given some of the report's statements around how gas market information and commercial settings need to improve.

¹ Martin Jenkins – “2021 Dry Year Event – An independent review commissioned by the Electricity Authority”
27 October 2021

7. In particular we are very concerned about the findings and comments suggesting there is a need to have established contractual frameworks to reallocate resources within the gas market². The report offers no solutions to this, other than to press for “*transparent standing arrangements to reallocate thermal fuel*”³.
8. As further noted in the MJ report⁴, industrial consumers, including our members, don’t buy gas for its arbitrage opportunity (e.g. by on-selling to generators). Rather value is created through the use of gas in the products produced, the jobs provided, and the national income it produces.
9. While we understand the desire to have clear and transparent energy reserve arrangements in place to deal with a dry year event, any such arrangement must be negotiated on a normal commercial basis between consenting parties, free from coercion or compulsion. If such arrangements cannot be reached in a normal marketplace setting it is not the place for regulation, or any other legislative tool, to force them to occur in order to satisfy some political priority. Doing so would also undermine investor confidence throughout the economy, particularly for overseas investors looking to invest in New Zealand businesses.
10. In any case, reallocation of gas should be considered a last resort within the Reserve Energy Scheme that is already built into the electricity market. If that scheme failed to ensure electricity supply security, we believe that the more obvious approach is to review that scheme.

Political Risk – An undermining feature for investment in energy security

11. While the MJ report hinted at the role of political uncertainty in ultimately securing gas from a major gas user, we suggest that this is another key finding that should have been further explored, particularly as to how this flows through into investment for gas supply security, and ultimately electricity supply security.
12. It remains disturbing in our view, that political uncertainty has become an underlying feature of the New Zealand energy markets in recent years. The report highlights this in its Environmental factor section under the heading “*A political environment generating uncertainty around investment in gas production*”⁵ and further in the comment that “*The political uncertainty experienced by participants, while ultimately unhelpful for confidence*

² Ibid– p15

³ Ibid- p15

⁴ Ibid – p15

⁵ Ibid, p8

within the market system, was likely a necessary part of ensuring gas could be reallocated from Methanex.”⁶

13. The political risk is one that has also featured in the GIC’s review of Gas Market Settings Investigations,⁷ when identifying factors affecting investment in current wholesale gas infrastructure. That report obliquely referenced this as a *“higher risk hurdle for capital investment in gas production and development in New Zealand than has previously been the case”⁸*. This statement alluded to the increased political risk faced by investors in New Zealand.
14. We suggest that this points to a greater need for the report to reflect on how Government policy setting behaviour can negatively impact risk perceptions for investment in energy security and whether this was also an important contributing factor in the 2021 Dry Year Event.

Yours sincerely,



Richard Hale
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Secretariat for the Major Gas Users Group

⁶ Ibid, p5

⁷ Gas Industry Company – “Gas Market Settings Investigation – report to the Minister of Energy & Resources”
30 September 2021

⁸ Ibid, p3 “What is the Problem”