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## **WHOLESALE MARKET COMPETITION REVIEW – SUBMISSION BY METHANEX NEW ZEALAND LTD**

We are writing to you in response to the *“Issues Paper – promoting competition in the wholesale electricity market in the transition toward 100% renewable electricity”* released by the Electricity Authority (the “Authority”) for consultation in October 2022.

1. Methanex wishes to register its opposition to the Authority’s proposal to invite MBIE to make amendments to the Electricity Industry Act 2010 to extend the Authority’s Section 46 information gathering powers to the gas supply arrangements of parties outside the electricity sector. [Paras 6.36, 6.32, 6.33]
2. In Methanex’ view, the Authority seeking such an extension of its Section 46 powers represents a regulatory over-reach, beyond the functions and purpose of the Authority and the underlying purpose of the Act. We consider it to be an inappropriate intervention into the affairs of parties to which the Authority otherwise has no regulatory responsibilities. Notwithstanding the particular merits for the request, we believe that the proposal, if accepted, would unnecessarily complicate the regulation of the gas industry and undermine the existing governance structure and the role of the Gas Industry Company. We strongly advise the Authority to withdraw this proposal and instead to address legitimate and substantiated concerns with the Gas Industry Company, and the particular parties to which the information applies.
3. Methanex’ view is that the Authority’s concerns regarding the absence of information on gas supply arrangements held outside the electricity sector is a distraction from the issue that the Authority should be focussed on resolving: ensuring electricity generators have a diverse, secure fuel mix and establish adequate commercial arrangements to ensure security of electricity supply without compromising third party businesses. [6.32]

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4. In seeking the amendment to Section 46, the Authority has cited the need to constrain market power. The Authority has not been clear as to whether its concern is the exercise of market power in the electricity or gas sector, or both. If its concern is constraining the exercise of market power in the electricity market, then it is hard to justify why the Authority is seeking information from the non-electricity sector. But if its concern is constraining market power in the gas sector, the Authority has not substantiated any evidence that such market power exists.
5. The Authority states that gas uncertainty contributes to increasing the opportunity cost of hydro storage and raises supply risk issues. This has no bearing at all on the information the Authority appears to be seeking – gaining access to information on the gas supply arrangements of non-electricity sector participants will not materially contribute to addressing the unavailability of gas, gas supply uncertainty or its consequences. [6.35]
6. The Authority has characterised gas uncertainty as a problem associated with insufficient information. [6.30] It is not the lack of visibility over gas supply information of parties outside the electricity sector that contributes to gas uncertainty rather it is the inherent and fundamental risk associated with unpredictable outages, production rates and exploitable reserves. These are all risks which have increased due to a combination of factors including aging gas infrastructure, maturing gas fields and policies disincentivising upstream E&P investment. Embarking upon what appears to be a fishing expedition for information associated with non-electricity sector gas supply arrangements will not resolve this underlying uncertainty or achieve a level of completeness and reliability of gas-related information the Authority appears to be seeking.
7. The Authority has identified three specific issues it is seeking to address by gathering information: [6.30]
  - (i) Security of supply assessments
  - (ii) Dry year risk management
  - (iii) Monitoring trading conduct
8. In each case, it has not described what type of information it needs, how the information it is seeking would be used or how it believes the information will successfully address those issues or identify any valid concerns.

For each issue, we suggest that the Authority's focus should be on monitoring the gas supply and other arrangements that electricity generators put in place to mitigate these risks including the arrangements that they negotiate among themselves to ensure the availability of reserve generation capacity, including for dry years, rather than interfering with and potentially disrupting the commercial arrangements of non-electricity sector gas users.

9. In making its claim to extend information gathering powers, the Authority has not clarified the extent of disclosure. This raises serious concerns the Authority will not sufficiently protect commercially sensitive information that it gains access to. Instead, it has created the ambiguity that the information it is seeking may be intended for wider disclosure by suggesting that one purpose of the information is to reduce the uncertainty that *"affects longer-term use and investment decisions about gas or alternative fuels by consumers and generators."* [6.35].

10. This suggests the Authority wants to make use of the gas supply information of users outside the electricity sector to assist electricity sector participants in making investment decisions. If this is the case, we consider it to be a potential misuse of information to give commercial advantage to particular interests, and with insufficient regard to the costs to those parties forced to disclose their commercially sensitive information.
11. Methanex has a demonstrated track record of reducing its own production and making gas available to electricity generators on reasonable commercial terms to reduce electricity security of supply risks when they occur. In this regard, Methanex considers the Authority's proposal to use the blunt instrument of regulatory intervention into the commercial affairs of gas users outside the electricity sector as undermining and counter-productive especially during formation of the Government's Gas Transition Plan.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Stuart McCall', written in a cursive style.

Stuart McCall  
**Managing Director**