



GREYMOUTH GAS

12 June 2019

Resource Markets Policy
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140
By email to Resource.Markets.Policy@mbie.govt.nz

Dear MBIE,

Re: Options for amending the Gas Act 1992

Introduction

The Greymouth group of companies are part of New Zealand's integrated gas supply chain, from exploration and development through to supply of gas to consumers. In this submission we answer a sub-set of the questions asked in the paper.

1 What emerging technologies or alternative fuel sources are likely to be covered by the Act's definition of "Gas"?

- 1.1 Gas is defined quite broadly in the Act and includes any gaseous substance declared to be a gas by an Order in Council. It is speculative to predict whether any particular emerging technology or alternative fuel sources would be covered by that definition.
- 1.2 Asking the question "Is the definition of "Gas" fit for purpose in a future world?" provides a different insight. Answering this question suggests that requiring a gas to be a 'fuel' may preclude CO₂ from being covered by the Act (because it has no energy value).¹ This may be problematic because one of the opportunities for NZ and the world is CCS – and either the Act, or other legislation, should support innovation in this area as it aligns with the net zero carbon vision.
- 1.3 The other issue with this question is that it follows a much broader discussion. That discussion highlights the following questions:
 - How will the government achieve 100% renewable electricity generation by 2035 in a normal hydrological year?
 - What is the definition of "renewable" when everything has an end?
 - How will a renewable energy strategy help achieve a zero carbon vision when renewable energy has CO_{2e} emissions?²

¹ Aside from for plants, or unless potentially mixed with other compounds.

² I.e. Geothermal has emissions from production and manufacture of kit, whereas other traditional renewable energy sources tend to have emissions only from the manufacture of kit.

- Given the state of climate change, what is the benchmark being proposed to define a “normal” hydrological year?³

2 What aspect(s) of the Act could be a barrier to the uptake of emerging technologies or alternative fuels?

- 2.1 Greymouth sees the 2020s and beyond as being about energy cost and efficiency, and its impact on traditional economic externalities (and that gas has a transitional role).
- 2.2 The Act is a barrier because it views a subset of energy (i.e. gas used for fuel) in isolation from other opportunities. This makes it difficult to assess emerging technologies and alternative fuels from a broad energy perspective.
- 2.3 Further, if it is proposed to co-mingle hydrogen with natural gas, health and safety will need careful consideration. Operationally, involving Standards NZ will be important. More broadly, there is a barrier insofar as policy makers will not know the health and safety requirements of emerging technologies ahead of time. Perhaps a safety case process should be adopted in these circumstances.

3 What aspects should be amended or changed to facilitate the emergence of new technologies and alternative fuels?

- 3.1 This question can be looked at in two ways:
 - 3.1.1 First, there is a significant opportunity for the government to create a new Energy Act which encompasses all component parts of energy (or at least sits above those individual components’ own legislation) and holds the whole energy system (including the Government) to account from a doughnut economic⁴ perspective while keeping the lights on, not eroding GDP, and ensuring NZ doesn’t lose its existing manufacturing base.
 - 3.1.2 Second, whilst all parties want to facilitate the emergence of new technologies, the Government should not necessarily want to facilitate the emergence of *all* alternative fuels. Further, there is a need to ensure that policy settings do not result in perverse outcomes. For example, coal has roughly twice the emissions of natural gas, yet Genesis is currently displacing gas with coal. This is a perverse outcome resulting from gas shortages, and is likely to get worse in time.
- 3.2 Therefore, legislation should be amended to talk about alternative fuels that minimise prevailing impacts on emissions, not all alternative fuels. What NZ should be doing, over time,⁵ is moving the power generation from the most to the least polluting (from a whole of carbon life-cycle perspective)⁶.

³ If benchmarked to current expected “normal” hydrology then we may never see a “normal” year again and therefore the target will be meaningless.

⁴ <https://www.kateraworth.com/doughnut/>

⁵ Ignoring financials for the moment.

⁶ i.e. long-run including carbon required to build kit, and short-run carbon including carbon produced during operations – e.g. see the last diagram in this article: <https://ecotricity.co.nz/is-geothermal-really-renewable-geothermal-emissions-are-now-higher-than-coal-in-the-electricity-sector/>

3.3 s43ZN of the Act should be amended (and GPS goals) to ensure these are fit for purpose in a net zero carbon future given that changes to Government policy are most likely to increase prices. All changes should be workshopped with the gas industry.

4 How will your business be impacted if changes to the Act are not made in the short-term (e.g. two to three years)?

4.1 Greymouth considers it better to regularly review and assess the legislative fit for current / future purpose, rather than make pre-emptive changes on an infrequent basis.

4.2 Flipping the question to “how will your business be impacted if [hydrogen] changes to the Act are made in the short-term” highlights that natural gas has paid for the transmission pipelines (many times over). The impact of alternative fuels must be factored into natural gas transmission prices and depreciation in a low natural gas throughput future.

4.3 Greymouth considers that changes to the Commerce Act 1986 should also be considered.⁷

5 Does the Act cause any issues with complying with other legislation?

5.1 The participant categories in the Act are not well drafted and this creates challenges with some of the GIC-led regulations which often revert to participant categories in the Act. For example, a gas producer need only supply gas – it needn't have mined that gas.

6 Are you interested in being contacted as MBIE develops a longer-term programme of regulatory work around the development or emerging technologies and alternative fuels relating to the Act?

6.1 Yes – however, we encourage MBIE to relate its longer-term programme of regulatory work around the development or emerging technologies and alternative fuels.

6.2 The challenge will be to work through the matters discussed particularly in 1.3, 2.1, 3.1.1, 3.2, 3.3, and 8.3, then to find substantive solutions that generate outcomes.

7 What concerns do you have about the flow and availability of information available to you or your organisation regarding situations that may affect the price and/or availability of gas supply?

7.1 One concern is that enhanced supply information will not create more gas supply. Greymouth has concerns that stakeholders do not understand this.

7.2 Greymouth is participating in industry discussions about upstream outages with a view to entering into a protocol. The outcome will not be a panacea for poor

⁷ This applies even if the Gas Act is not amended, so as to ensure that the Commerce Act is fit for purpose in a low natural gas throughput future.

governance and risk management practices that have failed to anticipate gas supply shortages.

7.3 Greymouth is concerned that strategic information is not available in a timely fashion meaning that some stakeholders may be unaware of NZ's longer-term energy challenges particularly in light of the ban on new offshore gas exploration. E.g. the delayed release of the ICCC's 2035 renewable energy report, GIC's delayed release of the prevailing supply / demand position, limited discussion / visibility on the Genesis coal imports, lack of certainty on climate change industrial units and price ranges for carbon auctions. All these matters affect price and gas supply availability on a deeper more fundamental basis than upstream production outages.

7.4 One other concern is that regulated information disclosure would act as a deterrent to the new investment needed in the sector.

8 Do you support the inclusion of an additional regulation/rule making power in the Act to require broader disclosure of information from the gas industry?

9.1 NZ also needs to be careful – NZ is at the bottom of the world, with a long physical supply chain, and a high cost of energy. Greymouth would be concerned if legislative or policy changes further increased NZ's country and regulatory risk.

9.2 Any changes need to be fit for purpose and ensure that strategic, upstream, midstream, and downstream information is in-scope. The objective should be to better understand and solve fundamental and pressing energy issues.

9 What concerns do you have about the current penalty regime for gas governance arrangements provided for by the Act?

10.1 Greymouth is concerned that the governance arrangements to which the penalties apply do not address NZ's productivity challenges.

10.2 For example, the CCO *should* issue notices straight to large businesses which, contrary to paragraph 79 of the paper, does not happen at present.⁸ Failure to address this issue undermines the proposed penalties regime.

Conclusion

Greymouth considers that gas – and CCS – have a critical role to play in NZ's transition to 2050 and beyond.

Yours sincerely



Chris Boxall
Commercial Manager

⁸ At the moment large businesses receive notices from retailers who go to a website to read a notice having been informed of a posted notice by TSOs who themselves get a notice from the CCO.