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Commerce Commission Input Methodologies Review  
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## Submission on Options to maintain investment incentives in the context of declining demand

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### Introduction

1. Energy Resources Aotearoa is New Zealand's peak energy advocacy organisation. We enable constructive collaboration across the energy sector and with government, through and beyond New Zealand's transition to net zero carbon emissions in 2050.
2. This document constitutes our submission to the Commerce Commission (**the Commission**) on its Input Methodologies Review options paper, *Options to maintain investment incentives in the context of declining demand*. We are happy to meet with the Commission to discuss this submission in further detail.

### Key points

#### **Key points**

- Notwithstanding the likelihood of natural gas demand decline, the overall pace and shape of this decline is uncertain. Gas (in all its forms) has a range of futures compatible with net zero emissions.
- Some of this uncertainty is compounded by ambiguity about policy direction, which may be resolved by the forthcoming Gas Transition Plan and National Energy Strategy. The Commerce Commission has time to consider the outcomes of these programmes.
- The priority should be preserving flexibility to avoid path dependencies and to maximise option value. An adaptive and responsive approach will best place the sector to navigate this uncertainty in a way that serves the long-term interests of consumers.
- As a specific point, we support a broadened definition of gas (to recognise its multiple forms) in the Commerce Act 1986 which would allow the Commerce



Commission to incentivise repurposing of gas pipeline networks where practicable.

## Submission

### ***There is broad agreement that natural gas demand will likely decline, but the pace and shape of that decline is unclear***

3. The Commission's options paper works from an assumption of widespread decline in consumer demand for natural gas. While we agree that in the context of a transition to a low-emissions economy there will likely be an overall decline in natural gas, the shape and pace of this decline is far from certain. This was evident in the strong divergence of views expressed (and evidence presented in support of them) during consultation on the Commission's DPP3 decisions made in May 2022.
4. Our own *Fuelling the Energy Transition* report highlights a wide range of natural gas demand scenarios that are consistent with New Zealand's target of achieving national net zero emissions (excluding biogenic methane) by 2050.<sup>1</sup> Natural gas is just one sector in a much wider economy, wherein a multitude of choices will be made over time to optimise our decarbonisation pathway. Ideally, New Zealand will pursue a trajectory that realises abatement opportunities based on their marginal abatement cost, with the 'net' target allowing unders and overs between sectors.
5. *Figure 1* and *Figure 2* below (excerpts from the full report) illustrate the point: plausible scenarios could range from total phase-out of natural gas by 2050, to a more gradual technology-led transition that utilises some combination of renewable gases and/or carbon capture, utilisation, and storage (CCUS).

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1 The *Fuelling the Energy Transition* report is available at:  
<https://www.energyresources.org.nz/assets/Uploads/Fuelling-the-Energy-Transition-Full-Report.pdf>.

We have also commissioned a further report into the range of possible pathways for the gas sector that will explore the relative costs and emissions implications of these. We will make this report available to the Commission once it is published in the coming weeks.

Figure 1: Projected gas demand by scenario (from Fuelling the Energy Transition report)

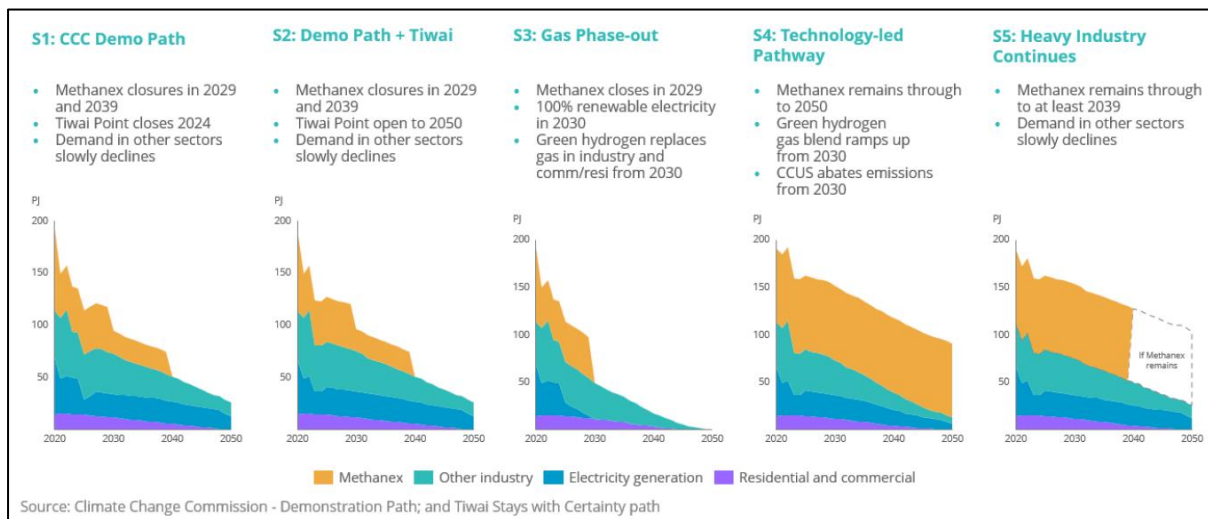
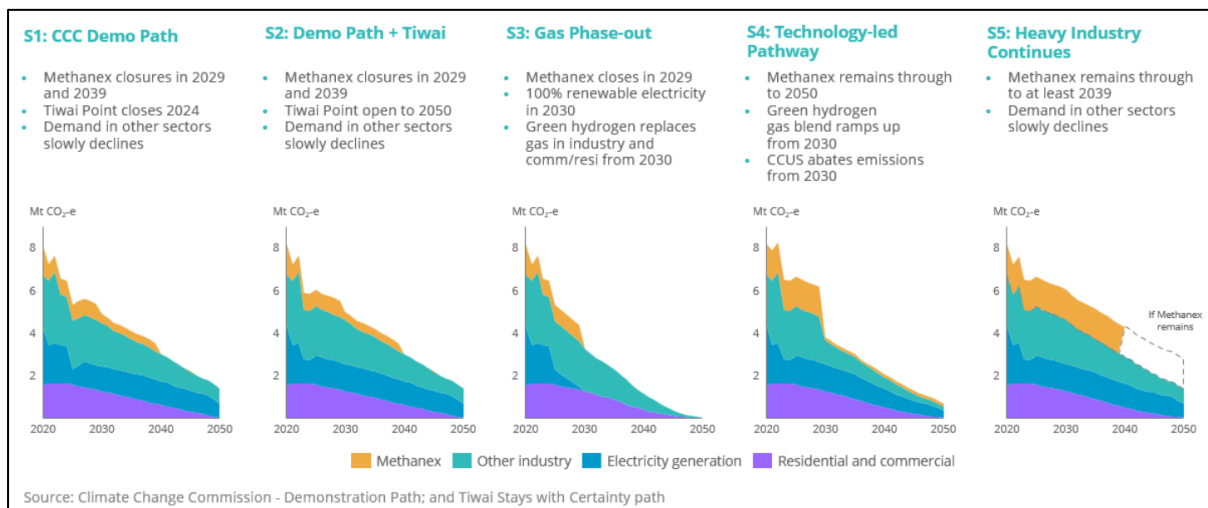


Figure 2: Projected greenhouse gas emissions by scenario (from Fuelling the Energy Transition report)



- The composition of declining demand is another key variable, as gas volume is not necessarily a proxy for gas pipeline business revenue. This volume-revenue variable will be highly relevant for the purposes of managing asset stranding risk and should be monitored closely. As the Commission notes, forecasting gas demand impacts at the individual asset level, or in parts of the network, is even more challenging.
- It is worth noting our scenarios were built based on the Climate Change Commission's own modelling. Even the Commission's demonstration pathway saw a sustained role for natural gas through 2050, with around 25 PJ of demand in 2050, though this represents a significant decline from today.

8. We appreciate the uncertainties and issues laid out above make the Commission's efforts to manage asset stranding risk – and its cost and service impacts on current and future consumers – particularly challenging. Acknowledging this uncertainty at the outset will inform an approach with the necessary flexibility to respond – if required – as circumstances change while continuing to support incentives to invest.

***The gas sector continues to face significant policy uncertainty***

9. The Commission identifies the prevailing policy uncertainty around gas demand as making it very difficult to reach a forward view on economic asset life and asset stranding risks. We agree – we highlighted this point in our public response to the Commission's May 2022 decision on DPP3.<sup>2</sup>
10. The overarching direction of travel for policy is clear: New Zealand has committed to achieving net zero emissions by 2050. But beyond this lies significant uncertainty, because as noted above, any number of gas demand trajectories could be consistent with a *net* – not gross – zero emissions economy in 2050. Net zero emissions does not necessarily mean zero natural gas.<sup>3</sup> Natural gas might be completely phased out; it might be blended with renewable gases; its emissions might be captured for reinjection or embedded in other products; and/or residual gross emissions might be offset with the use of forestry or other sequestration opportunities.
11. Further specificity in terms of policy direction will be delivered through the Gas Transition Plan expected at the end of 2023, and the National Energy Strategy expected at the end of 2024. We are actively engaging with officials to support this work. Both are expected to be complete before DPP4 (beginning October 2026) and should inform decisions on DPP4.
12. We further caution that policy direction can change, and indeed frequently does. Over time, successive governments' appetite for intervention may vary, with implications (positive or negative) for natural gas demand.<sup>4</sup> The Commission should of course ensure its approach is responsive to the prevailing policy settings but also preserve flexibility to accommodate shifts over time. To this end, the IM

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2 See here: <https://www.energyresources.org.nz/news/extreme-complexity-of-energy-policy-highlighted-in-comcom-decision/>

3 Indeed, a net zero emissions target implies a range of possible mixes of emissions reduction, offsets, and removals. This in turn implies a range of possible gas futures, including natural gas, renewable gas, demand reduction, CCUS, and offsets. It is important the Commerce Commission is cognisant of this and preserves optionality in its settings to support the long-term interests of consumers.

4 Complementary measures are measures intended to complement the New Zealand Emissions Trading Scheme (NZETS) in achieving net emissions reductions. These might include regulations/standards, subsidies/fees, and information provision.

review should specifically address how over- or under-recovery might be dealt with.

### ***Repurposing of existing gas infrastructure***

13. The Commission's options paper states that

*“Repurposing to alternative gases may offer an opportunity for certain assets to continue operating for their expected physical (or available) asset lives. However, the economic life of an asset depends on the range of possible outcomes for gas pipelines. There is now a material likelihood that the useful life of GPB assets is shorter than their physical lives and so the (expected) economic asset lives are now less than the (expected available) physical asset lives.*”

14. Notwithstanding this point, and while it is outside the remit of the Commission's review, we would support an expanded interpretation of gas pipeline services in Part 4 of the Commerce Act 1986 (possibly aligned with the definition of gas under the Gas Act 1992). This would enable the Commerce Commission to make decisions regarding IMs and DPPs that incentivises gas pipeline businesses to invest in repurposing their networks as part of the transition to net zero.

### ***Summary***

15. There are a range of potential futures for gas (in all its forms) that are compatible with a net zero emissions economy. In navigating uncertainty about which future might eventuate, the Commerce Commission should seek, as much as possible to preserve flexibility in its settings. It should regularly consider new information and developments as the sector iteratively explores opportunities such as renewable gas and CCUS. It should be wary of both path dependencies and foreclosed options. There may be significant option value in retaining gas pipeline infrastructure which could support decarbonisation.