



26 May 2021

Andy Burgess
Head of Energy, Airports and Dairy Regulation
Commerce Commission
By email: regulation.branch@comcom.govt.nz

Dear Andy

Feedback on open letter: ensuring our energy and airports regulation is fit for purpose

1. Greymouth Gas New Zealand Limited (**Greymouth**) refers to your open letter dated 29 April 2021 inviting feedback on the Commerce Commission's (**Commission**) upcoming reset of price-quality paths for gas pipeline businesses (**Gas reset**) and input methodologies (IMs) review (**IM review**). Greymouth welcomes this opportunity.
2. Greymouth's submissions are:
 - a. The process should be amended to provide for a gas IM review prior to the Gas reset;
 - b. Issues that are specific to the natural gas market, which is in a "sunset" phase, mean that it requires a change to gas IMs; and
 - c. The impact of developing alternative fuel technologies should be carefully considered so as not to compromise quality or result in subsidisation from consumers of the regulated business.

Gas IMs should be reviewed before the Gas reset

3. The Gas reset should not be conducted using the current IMs. Rather, the process and timetable should be amended to allow for a gas IM review ahead of the main IM review so that updated IM settings can be used for the Gas reset.
4. Your letter identifies issues facing the natural gas industry which set it apart from the rest of the energy sector and which have come about since the last Gas reset and IM review. The changes experienced since then have materially changed the natural gas market and are continuing to occur at rapid pace.
5. At the time of the last IM review and Gas reset, the gas market was anticipating a period of growth, as large users looked to lower emissions by transitioning from coal to natural gas. Since then, the ban on new offshore exploration and the Climate Change

Commission's (CCC) draft recommendation to ban new gas connections by 2025 have had a rapid and chilling negative effect on investment.

6. At the same time, the CCC is indicating the need to ensure electricity remains affordable and accessible, particularly in the context of integration of new technologies and the recommended transition of large commercial and industrial consumers from gas to electricity where possible. Without security, NZ consumers will suffer and some important businesses of scale will die or leave the country.
7. The role of natural gas in NZ's decarbonisation transition, including the provision of stable and affordable electricity supply, is explicitly recognised in the Minister of Energy's request to the Gas Industry Company to provide a report on security of gas supply for electricity generation and major gas users.
8. However, the natural gas market is firmly on a downwards trajectory. Existing regulatory settings cannot be fit for purpose in such a changed landscape. Locking in, for a further 4 years, prices that are not informed by a review of inputs (such as asset valuations) which were determined in the context of a robust market, risks accelerating the decline of the gas market at a time when it is crucial to NZ's decarbonisation transition.

Issues that should be considered in the price reset and IM review

9. The matters set out above also inform the types of issues which should be considered when reviewing the IMs and the Gas reset. The impact of new fuel gas technologies on existing infrastructure will depend on which of those technologies the relevant markets adopt as they transition.
10. For example, bio-methane may require no appreciable change to existing pipelines. However significant reinforcement, as well as changes to end-user installations, would be required before pipelines could be used for hydrogen.¹
11. Regulators should remain neutral as to which new fuel gas option(s) the market might settle on. While it is important to ensure existing settings do not hinder development of new markets and/or technologies, the focus should remain on consumers of the market being regulated. Under a price-quality path, this means ensuring that quality (including the ability to transport natural gas to consumers) is not compromised and that prices do not subsidise new markets.
12. One danger in a sunset market is that it has the potential to become less competitive as participants exit. It is therefore in the interests of consumers for barriers to entry to such a market to be reduced wherever possible. Rising regulatory prices will surely run counter to that aim.
13. In that context, Greymouth considers the following questions should be addressed during the review process:
 - a. What is a fair value for the asset on which regulated suppliers are getting a regulated return?

¹ See Firstgas Group's "Bringing Zero Carbon Gas to Aotearoa: Hydrogen Feasibility Study – Summary Report"

- b. What is a fair risk allocation between regulated and non-regulated participants as volumes decline in a market where charges are volume-based?
- c. How can one ensure that participants in, and consumers of, a sunset energy market are not subsidising development of new energy markets?
- d. Related to c., are the current cost allocation rules fit for purpose given the potential for significant overlap between regulated infrastructure and the infrastructure that may be needed for developing fuel technologies?
- e. In light of Firstgas' announcement of its intention to phase hydrogen into the natural gas supply, how will the quality aspect of the price-quality path be protected for natural gas consumers?

14. Greymouth would welcome the opportunity to submit in person to the Commission. Commission queries should be directed in the first instance to chris.boxall@greymouthpetroleum.co.nz with a copy to Colin Willett (colin@greymouthpetroleum.co.nz).

15. No part of this submission is confidential and it may be made public.

Yours sincerely



Chris Boxall
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