



## COVERSHEET

<b>Minister</b>	Hon Simeon Brown Hon Shane Jones	<b>Portfolio</b>	Energy Resources
<b>Title of Cabinet paper</b>	<i>Gas Security Response Group: July 2024 report back</i>	<b>Date to be published</b>	16 September 2024

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
July 2024	<i>Gas Security Response Group: July 2024 report back</i>	Office of the Minister for Energy  Office of the Minister for Resources
31 July 2024	<i>Gas Security Response Group: July 2024 Report Back</i> <i>ECO-24-MIN-0148 Minute</i>	Cabinet Office
5 August 2024	<i>Gas Security Response Group: July 2024 Report Back</i> <i>CAB-24-MIN-0285 Minute</i>	Cabinet Office

### Information redacted

**YES / NO** (please select)

Any information redacted in this document is redacted in accordance with Ministry of Business, Innovation and Employer's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under *Official Information Act 1982*. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of commercial information.

## In Confidence

Office of the Minister for Energy

Office of the Minister for Resources

Cabinet Economic Policy Committee

## Gas Security Response Group: July 2024 report back

### Proposal

- 1 To report back on the work of the Gas Security Response Group (the Group) that the Ministry of Business, Innovation and Employment (MBIE) has convened in response to issues with gas security of supply.

### Relation to government priorities

- 2 This is a routine report back as directed by Cabinet.

### Executive Summary

- 3 There are commercial solutions that may be able to be put in place to ease the tight gas supply in the short- and long-term.
- 4 Ultimately, the most certain long-term solution will be greater investment in gas production to increase supply.
- 5 In the short term, the only option for freeing up gas is bilateral discussions with major gas users. There has been good progress to put in place agreements to cover this year's shortages.
- 6 The longer-term solutions are promising but complex. They will involve long-term contracting and industry cooperation to fund the significant investment required. The Group has made good progress in identifying options, but more work is needed to determine if the options will be commercially viable.
- 7 Industry participants have suggested there will likely be a role for Government in mitigating the perceived sovereign risk of investment in long-term projects, as well as navigating through regulatory processes such as competition issues when parts of the sector need to act together to provide a solution.
- 8 There has been broad agreement that there is an ongoing role for the Group to facilitate engagement across the industry and to serve as a vehicle for the industry to communicate with the Government.
- 9 We will report back to Cabinet on further progress in October 2024.

**Background**

- 10 New Zealand has a closed gas system with no ability to supplement natural gas supply through imports. Gas supply has been tight for some time, but recent forecasts from the Gas Industry Company (GIC) (the co-regulator) suggests it is getting tighter than we had thought, faster than we had thought.
- 11 On 6 May 2024, we informed Cabinet that there is an emerging immediate issue with gas security of supply. MBIE set up the Gas Security Response Group to respond to any issues around gas security of supply at the direction of Cabinet.
- 12 The Group provided gas supply forecast data and demand data for the next 12 months, which confirmed there was a supply shortage. This will require a further reduction in demand beyond existing demand reduction.
- 13 Members of the Group were also requested to generate potential workstreams to improve gas supply or reduce gas demand. We reported back to Cabinet on 4 June 2024 [CAB-24-MIN-0195 refers] with an update from the Group on the eight workstreams to address security of supply issues. Two are comprised of work the government has underway in the Resources and Energy Portfolios.
  - 13.1 Progressing the large policy package of work already underway: amendments to the *Crown Minerals Act 1991* (which include the removal of the offshore exploration ban), regulatory changes to enable carbon capture, utilisation and storage, and the Fast-track Bill.
  - 13.2 Diversifying gas supply by enabling renewable gases.
- 14 Four workstreams are industry led with facilitation by the GIC. Each workstream has a subset of the Group members participating:
  - 14.1 Investigate increased demand reduction.
  - 14.2 Investigate a gas-based flexibility option for electricity generation.
  - 14.3 Diversifying gas supply by the market investigating import of liquid natural gas.
  - 14.4 Explore the use of alternative fuels for current gas users.

<b>Workstream</b>	<b>Participants</b>
Increasing demand reduction	Ballance, Clarus, Genesis, Greymouth, Firstgas, Fonterra, Mercury, Meridian, Methanex, Oji FS,
Increasing investment in flexible gas-based electricity generations	Clarus, Contact, Firstgas, Genesis, Greymouth, Mercury, Meridian, Methanex, NOVA, OMV
Diversifying gas supply – LNG import	Ballance, Clarus, Contact, Fonterra, Genesis, Mercury, OMV, Greymouth, Nova
Increasing the use of alternative fuels	Ballance, Clarus, Firstgas, Fonterra, Greymouth, Methanex, Nova, , Oji

- 15 The remaining two are to be delivered as part of GIC’s business as usual work:
- 15.1 Investigating the viability of reducing pipeline pressure in Taranaki.
  - 15.2 Investigating the establishment of a transparent futures market.

### **Gas Security Response Group workstreams report back**

- 16 The section below provides a summary of the actions taken by the workstreams as well as the future actions. This information is summarised in an A3 in **Appendix 1**.

#### **MBIE led workstreams**

##### *Improving the investment environment*

- 17 This workstream is a package of existing policy measures that could positively impact investment in gas production:
- 17.1 **Amendments to the Crown Minerals Act:** Cabinet has made policy decisions and a Bill is intended to be Introduced to the House before the end of 2024.
  - 17.2 **Fast Track Approvals Bill:** This Bill, which will reduce consenting barriers to infrastructure investment, has been referred to a select committee and is expected to be passed before the end of 2024.
  - 17.3 **Carbon capture, utilisation and storage:** A proposal to enable carbon capture, utilisation and storage was released for consultation on July 9. Policy proposals will be presented to Cabinet in September 2024.

##### *Diversifying gas supply – renewable gases*

- 18 MBIE is continuing to work with the Ministry for the Environment and industry on options to remove or reduce barriers to the supply of biomethane<sup>1</sup>.
- 19 Clarus, the main owner of the gas distribution network, has three projects in the planning stage that could supply around 1.5 petajoules per annum of gas in the medium term. This is on top of the 0.3 petajoules Clarus will begin injecting into the transmission network at Reporoa in coming months from the Ecogas facility. They believe this could be the start of a pipeline of renewable gas projects if the regulatory and market settings are correct.

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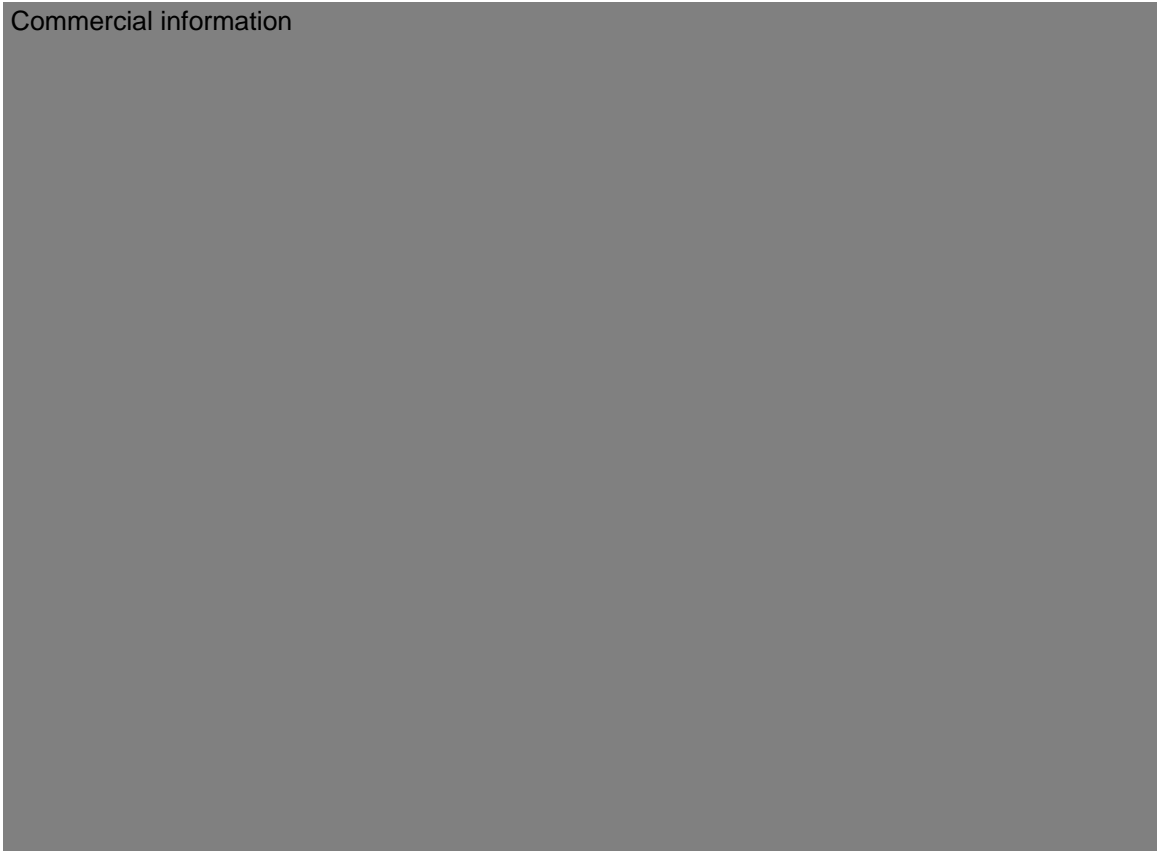
<sup>1</sup> This is a direct substitute for natural gas that is produced from organic sources such as landfill and waste water treatment.

**Industry led workstreams**

*Increasing demand reduction*

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Commercial information



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23 The electricity sector may be able to free up gas through greater use of diesel and coal to displace gas use.

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Commercial information



25 GIC will continue to work with the workstream members to facilitate the necessary bilateral agreements.

*Increasing investment in flexible gas-based electricity generation*

26 This workstream is looking at how the gas and electricity sector can work together to ensure there is the fuel and generation capacity to meet energy needs in the medium-to long-term.

27

Commercial information



Commercial information

- 28 There are concerns the perceived sovereign risk related to the need to invest across multiple electoral cycles will make it difficult to access capital at reasonable prices. The long-term nature of the investment combined with potential future government actions that may limit or increase the price of fuel has raised the risk of stranded assets or contracts. While the workstream acknowledge it is difficult to assess the likelihood of this risk the consequences would be potentially high. There has been discussion that there is a role for government in reducing the perceived investment risk.
- 29 There is broad agreement that the workstream has been a positive influence in bringing together market participants and starting to create a consensus view of what a solution would involve. The workstream will continue to meet and work towards a potential commercial solution. GIC will continue to facilitate workstream meetings.

*Diversifying gas supply – Liquefied Natural Gas imports*

- 30 GIC has commissioned work to update understanding of the commercial and technical feasibility of liquefied natural gas (LNG) importation at Marsden Point, Port Tauranga, and offshore Taranaki using existing Taranaki gas infrastructure.

Commercial information

- 31 Initial indications are that the capital cost of an import terminal may be significantly less than had previously been estimated. In addition, lower international gas prices may make imported gas more affordable for suppliers who can either absorb the higher price or pass it on to end users.

32 Commercial information

- 33 GIC will provide updated information on the costs and feasibility of LNG importation across the different locations to facilitate discussion on commercial options. The workstream will continue to discuss the multi-party arrangements needed for LNG including possible capital avenues for infrastructure. The workstream participants have said that continuing the facilitated discussions will be beneficial in progressing this work.
- 34 As with increasing investment in flexible gas-based electricity generation, the scale and length of the investment period for LNG importation have raised perceived sovereign risk concerns (see paragraph 28).
- 35 As this workstream progresses it will be important to understand how imported LNG can be used to support domestic gas during tight periods, such as winters, without displacing domestic supply. Displacement could lead to reduced upstream investment and further supply reduction. It will also be important to understand how LNG will

affect domestic gas wholesale prices and be passed through to electricity prices and impact industrial competitiveness.

- 36 MBIE will continue to work with GIC to ensure there is a good understanding of the market impact of potential LNG importation.

#### *Increasing the use of alternative fuels*

- 37 Commercial information [REDACTED] If this is possible, it may free up around 1 petajoule of gas across the year for other uses.

- 38 The workstream will continue to explore feasibility of expanding this option including any regulatory barriers.

#### *Pipeline operating pressures*

- 39 A trial of lower pipeline pressure has been completed. Lower pressure will offer limited gains in supply that would likely help one asset owner but would not significantly change the supply and demand balance. There may also be material costs associated with reduced operating pressure that would need to be explored.
- 40 The workstream will continue to investigate the costs and benefits but with a lower priority than the other workstreams.

#### *Futures market*

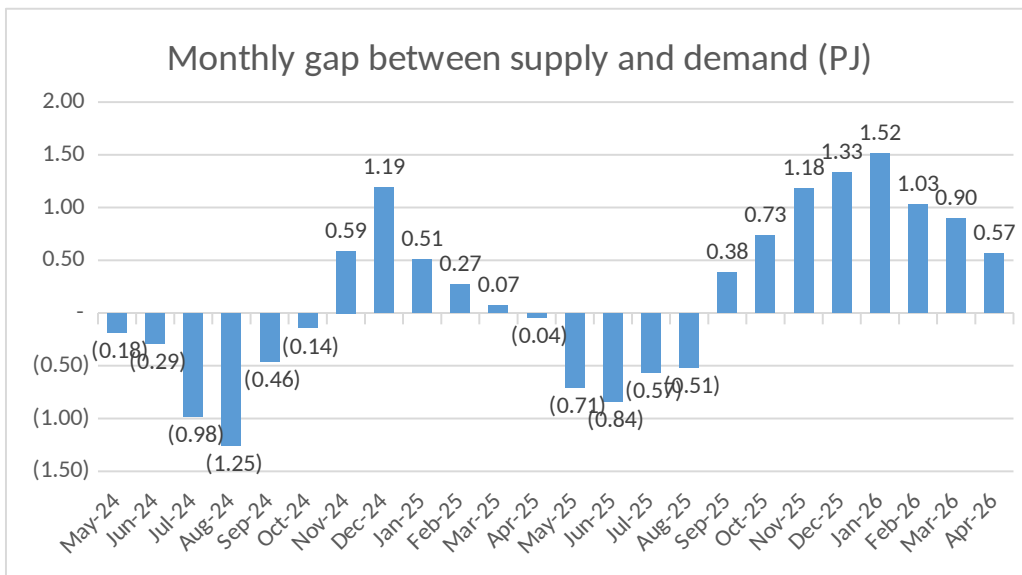
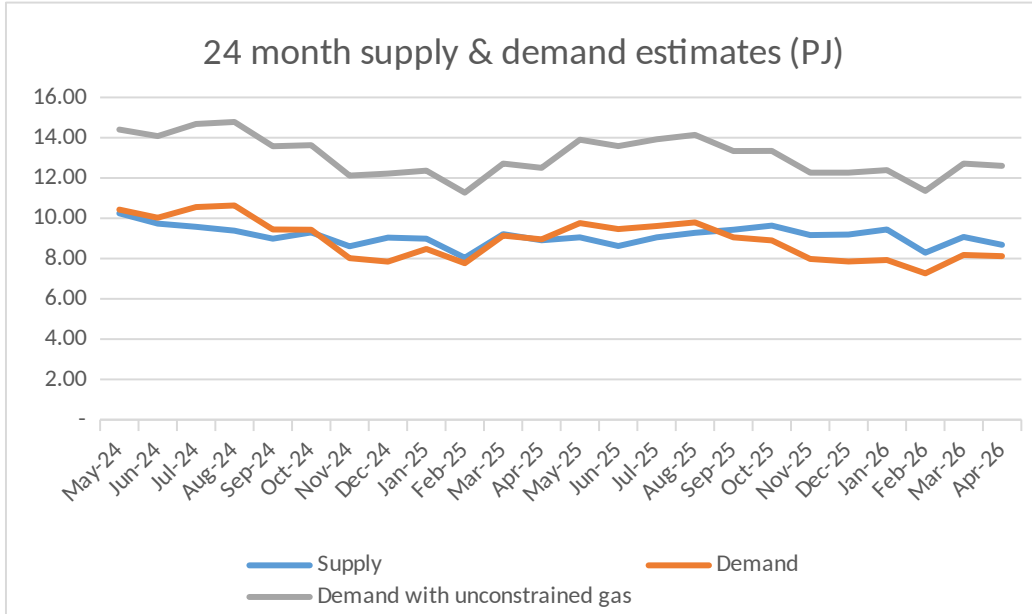
- 41 This work is on hold due to being assigned the lowest priority by the Group and due to limited availability of resources. As other workstreams progress and resource becomes available this may be progressed.

#### **Summary of the Government's role**

- 42 We will continue with Government policy work including amending the CMA, introducing the Fast Track Approvals Bill and consulting on proposals to enable carbon capture, utilisation and storage.
- 43 The industry participants have suggested there will likely be a role for Government in mitigating the perceived sovereign risk of investment in long-term projects that to operate across multiple electoral cycles. In addition, there may be a role in navigating through regulatory processes such as competition issues when parts of the sector need to act together to provide a solution.
- 44 We have asked officials to investigate issues with perceived sovereign risk and explore impacts and potential mitigations to address any risk to long-term investment.
- 45 The Group will remain convened with MBIE as the Chair. Workstreams are progressing well, and members have expressed that there is ongoing value for the Group. The Group will meet again in early August 2024. We will report back to Cabinet in October 2024.

**Supply and demand data for next 24 months**

- 46 At MBIE’s request, the Group has produced new estimates of gas supply and demand for 24 months. This extends the original data to mid-2026. The new supply data assumes some successful development of wells to bring new supply to market later in 2024 and through 2025/26.
- 47 The additional 12 months of data reflects a similar seasonal pattern to the original 12-month data. There will be a tight supply across winter that will ease during summer. This data has been provided to Transpower to assist in their planning.



**Gas reserves data**

- 48 On 11 July 2024, MBIE published its annual update on oil, gas, and liquefied petroleum gas reserves. These figures are obtained from the gas producers and



provide a measure of the remaining oil and gas. The figures reported a 20 per cent decrease in 2P Reserves<sup>2</sup>, (from 1,635 petajoules (PJ) to 1,300 PJ) and a six per cent increase in 2C Contingent Resources<sup>3</sup> (from 1,727 PJ to 1,827 PJ).

- 49 Some field operators had demoted reserves from 2P Reserves to 2C Contingent Resources due to changing investment decisions. Some reserves have been lost following technical revisions resulting from updated information on gas well performance. Where reserves are demoted, the volumes may still be produced in the future if deemed economically viable, depending on a change to commercial and regulatory environment.

### **Cost-of-living Implications**

- 50 The current situation is putting pressure on gas prices for large customers and cost increases may be passed on to consumers. There could be significant cost-of living implications in the event of a gas supply shortage. Lowering of production or closure of large industrial businesses could result in job losses and broader implications for the domestic economy.

### **Financial Implications**

- 51 Not applicable.

### **Consultation**

- 52 This paper was developed with information provided by the GIC as workstream facilitator.

### **Communications**

- 53 We intend to make a public statement providing an update on gas security of supply and the work underway by the Group.

### **Proactive Release**

- 54 We intend to release the Cabinet paper proactively in part, within 30 business days.

### **Recommendations**

The Minister for Energy and the Minister for Resources recommends that the Committee:

- 1 Note MBIE set up the Gas Security Response Group (the Group) to identify and respond to any issues around gas security of supply at the direction of Cabinet.
- 2 Note the most recent data from the Group indicates the 12- to 24-month supply and demand pattern will be similar to the next 12 months with tight periods over winter easing in summer.

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<sup>2</sup> 2P Reserves (Proven plus Probable reserves) are an estimate of the amount of gas that gas producers expect to produce from any field.

<sup>3</sup> 2C Contingent Resources are gas quantities that gas producers estimate they could produce following establishment of commercial viability. If a gas producer decides that it is commercially viable to produce such gas, it could reclassify the gas as 2P Reserves.

**IN CONFIDENCE**

- 3 Note the identified short-term gas shortage is likely to be met through the demand response workstream facilitating bilateral agreements to increase the supply of gas into the market.
- 4 Note the other workstreams are making positive progress on longer-term solutions but more work is needed to understand the necessary contractual arrangements and the commercial viability.
- 5 Note we are continuing with the policy work in our portfolios to improve the investment environment for gas supply.
- 6 Note we have asked officials to investigate issues with perceived sovereign risk and explore impacts and potential mitigations to address long-term investment risk.
- 7 Note the Group will remain convened as there is an ongoing role to facilitate sector engagement and to serve as a vehicle for the sector to communicate with the Government.
- 8 Note we will report back to Cabinet on further progress in October 2024.

Hon Simeon Brown

Minister for Energy

Hon Shane Jones

Minister for Resources

Workstream	Participants	Objective	Update	Next Steps	Status
<b>Increasing demand reduction</b> (Industry)	Ballance, Genesis, Fonterra, Mercury, Meridian, Methanex, Oji, Greymouth	Explore options for large gas users to reduce consumption over the next 12-18 months.	Commercial information		Progress being made
<b>Diversifying gas supply - Liquid Natural Gas (LNG) Import</b> (Industry)	Genesis, Mercury, OMV, Greymouth, Nova	Investigate importation of LNG to diversify gas supply.		Progress being made	
<b>Increasing investment in flexible gas-based electricity generation</b> (Industry)	Ballance, Genesis, Mercury, Meridian, Methanex, NOVA, OMV, Contact, Greymouth	Investigate a gas-based flexibility option for electricity generation to ensure there is sufficient generation available to meet future firming demand.		Progress being made	
<b>Increasing the use of alternative fuels</b> (Industry)	Fonterra, Methanex, Nova, Ballance, Oji	Exploring options to switch fuels for current gas users.		Progress being made	
<b>Improving investment environment</b> (MBIE)	MBIE progressing as BAU	Policy package underway to improve investment in the gas sector. Changes to the Crown Minerals Act, enabling carbon capture utilisation and storage and the Fast Track Approvals Bill.	<ul style="list-style-type: none"> <li>CMA changes have had policy approval. A bill is being drafted for introduction before the end of 2024.</li> <li>The Fast Track Approvals Bill is expected to pass in the House by the end of 2024.</li> <li>A proposal to enable carbon capture, utilisation and storage has been released for consultation. Initial policy decisions will be taken to Cabinet in September 2024.</li> </ul>	Continue to progress the policy work programme.	Progress being made
<b>Diversifying gas supply - Renewable gases</b> (MBIE)	MBIE progressing as BAU	Investigating how to diversify gas supply by increasing adoption of renewable gases.	<ul style="list-style-type: none"> <li>MBIE is working with the Ministry for the Environment and the renewable gas sector on specific options to remove barriers to producing biomethane.</li> <li>Commercial information</li> <li>Success of these projects could enable a pipeline of renewable gas projects.</li> </ul>	Develop options to remove regulatory barriers to biogas development.	Progress being made
<b>Pipeline operating pressures</b> (GIC)	GIC progressing as BAU	Investigating the viability of reducing pipeline pressure to enable increases in production from existing fields.	<ul style="list-style-type: none"> <li>A trial of lower pipeline pressure has been completed.</li> <li>The benefits of lower pressure are expected to be positive in terms of gas availability for one asset owner but are not expected to significantly change the supply and demand balance. There appears to be material costs associated with reduced operating pressure.</li> </ul>	Industry is doing more work to quantify costs and benefits, which is expected to be a long-term piece of work.	Not expected to materially contribute
<b>Futures market</b> (GIC)	GIC to progress as BAU	Explore a new futures market for small to moderate gas volumes	<ul style="list-style-type: none"> <li>The Group decided to place this on hold, as it was seen as the lowest priority and resources could be better used in other areas.</li> </ul>	On hold	On Hold

**Appendix 1 Update on Gas Security Response Group workstream actions and next steps**