

The Gas Industry Company's report to the Minister of Energy and Resources on gas market settings provides advice in the context of New Zealand's path to a net zero emissions economy by 2050 and the Government's commitment to transition to 100% renewable electricity by 2030. The Electricity Authority would like to acknowledge the report and the risks and recommendations highlighted within.

The role of fossil-fired thermal generation will undoubtedly change through the transition to a low-emissions energy system. Over the next decade, average running hours of fossil-fired thermal generation will reduce and there will be significant swings in fuel burn between wet and dry years. Periods of low hydro inflows have been managed well in the past, but the interconnected nature of fuel supply and electricity generation highlights the potential role for a national *energy* strategy to chart the path forward. Imported fuels like coal have played a critical role in supporting security of electricity supply for many years and provide a key source of flexibility in supply when required, however these situations will need to be managed differently in future. While many countries overseas are transitioning from coal to gas, the Government is seeking to transition further and faster – towards 100% renewables. A range of solutions may emerge, including green gases. Given recent issues with reliability of supply from indigenous gas, we support the Gas Industry Company examining a number of options for maintaining reliability in the future.

The Gas Industry Company's report references the various reviews being undertaken by the Authority, which touch on the impact of the evolving gas supply situation on the electricity market. We acknowledge the uncertainty investors in gas are facing, the importance of planned gas demand response as a mechanism for maintaining electricity security and the benefit to market certainty of these arrangements being negotiated in advance. There are strong incentives on parties to develop commercial arrangements to manage security of supply in the electricity market, including the payments to consumers retailers are required to make under the customer compensation scheme. The Genesis/Meridian swaption is one such commercial arrangement, and the Genesis/Methanex deal of 2021 (and beyond) is another. We agree with the submissions of gas generators that there don't appear to be impediments to commercial solutions being agreed, but agree with the Gas Industry Company that there would be benefits for market stability and certainty if these were agreed in advance (as per the Genesis swaption).

Because of the impact supply continues to have on the electricity market, and the importance of gas to security of *energy* supply - particularly in the transition to renewables, it is important that the Authority can access better data on gas markets. Since the 2018 Pohokura outage the Authority has:

- been working with the gas industry on security of supply issues

- provided input into the Gas Industry Company's gas market settings investigations
- made an urgent (temporary) change to the Code to lower the threshold for what information must be disclosed. The Board has now approved making this permanent
- delivered a change to the Code to improve the availability of thermal fuel information, with effect from 1 April 2021, including quarterly reporting of how the disclosure exemptions are being used. Based on this reporting the Authority will be in a better position to review the exemptions and we expect to start this review once we have a good data set – possibly after two years.

The Authority has worked with energy sector participants to manage security of supply this year and will continue to do so into the future. While the settings are generally incentivising participants to manage security of supply, the insights the Authority has gained from its work on responding to the dry-year event have revealed areas where further improvement is needed. The 2021 experience highlighted there is a key gap around the Authority's ability to get adequate information about the availability of gas for electricity generation. As part of its review of the 2021 dry-year event, the Authority will be considering any necessary changes to regulatory settings and processes required to support this.