Sector gas fears plausible but unlikely, MBIE told ministers

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Officials told ministers that a sector warning of long-term structural economic damage from the country's gas shortage is plausible but unlikely.

The Energy Transition Framework paper, released in September, recommended Government-led action on the scale of the responses to the Canterbury earthquakes, and warned that if the gas situation is not handled well, the economy will not bounce back.

But in a briefing released to Energy News under the Official Information Act, the Ministry of Business, Innovation and Employment describes the report's assumptions about the likely supply of gas as conservative and cautious.

"While MBIE considers the report represents a plausible downside scenario, it should not be considered as the central or most likely scenario," the ministry told Energy Minister Simeon Brown and Associate Energy Minister Shane Jones in August, ahead of the report's release.

"However, it does provide a useful stress test of current market and policy settings if gas supply continues to decline more rapidly than expected."

The Energy Transition Framework is a group of electricity, gas and hydrogen regulators, generators, distributors and retailers working towards a "shared vision" of a low-emissions, high-growth economy. It is chaired by Electricity Networks Aotearoa chair Nigel Barbour.

Supply

The MBIE briefing says it is appropriate for industry to take a cautious view of likely gas supply, but that there is already a range of work under way to reduce the risk of a shortfall in gas supply.

These include a government plan to underwrite the infrastructure needed to import liquefied natural gas, and measures that would lead to an increase in domestic gas supply, such as the granting of new exploration and mining permits and the $200 million available for investment through the Gas Security Fund.

The ministry also refers to "supporting measures to improve gas market resilience and manage future supply risks" but details have been redacted from the copy of the briefing released to Energy News, citing confidentiality of advice.

The briefing compares the framework's estimates of future gas supplies with MBIE's own reserves forecasts and supply outlooks by Enerlytica.

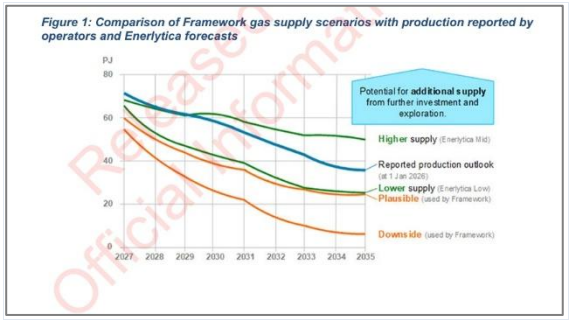


Fig 1: Comparison of Framework gas supply scenarios with production reported by operators and Enerlytica forecasts *[click image to enlarge]*

It says the framework's 'plausible' scenario aligns with Enerlytica's 'lower supply' scenario and is below the reported production outlook and Enerlytica's mid and high scenarios.

Officials say that the framework justifies its conservative view on sentiment coming

through the Gas Working Group from operators like Todd Energy and Genesis Energy, and on an assumption that ambitious supply developments are less likely in a declining market.

"It also reflects a precautionary approach to manage the potential for undersupply to avoid risks of firm closures," the briefing says.

The forecasts are all based on existing fields only, and largely on committed investment.

"While success is never certain, additional gas supply may be produced over coming years as a result of further investment in existing fields (including that supported by the Gas Security Fund) as well as the successful development of new fields discovered through current and future exploration activity."

Potential

The briefing refers to potential supply scenarios out to 2035. Details have been redacted on the grounds of free-and-frank advice to ministers.

But the text says that the central point within an uncertain range suggests that total annual gas supply will exceed total annual gas demand through the late 2020s and early 2030s, before converging towards the central demand estimate by around 2035, with demand likely exceeding supply after that.

Under this scenario, Methanex would cease operations at its Taranaki methanol plant in May next year and Ballance Agri-Nutrients would continue urea production through 2028.

Future gas demand would reflect confirmed fuel-switching projects, a steady transition by residential and commercial gas users and electricity generation assumptions in line with MBIE's market assumptions.

"However, uncertainty remains high," the document says. "Both supply and demand could evolve quite differently from current expectations."

Planning

Noting the framework's call for a coordinated national plan to address the gas shortage, officials say the proposal would take resources away from other areas.

"Convening and coordinating a national plan and delivery taskforce with system participants would require a reprioritisation and less focus on other high-priority and impact measures in the energy portfolio, such as LNG and fuel response measures."

Nevertheless, officials say they will provide ministers with advice on how they can work with industry on a plan for gas.

The ministry is skeptical about the briefing's call for widespread switching of residential and commercial users away from gas to reduce demand, saying that the uncertain benefits of a $3.3 billion large-scale switching programme mean it "does not warrant direct government intervention at this time".

Focusing on the industrial sector would provide greater demand reduction, it says.

"MBIE will continue to monitor the supply outlook and reconsider this view if the circumstances materially deteriorate," it says.

The ministry agrees with the framework's recommendation that network settings for both gas and electricity need to be resolved and cites a Boston Consulting Group report that says that $8.2 billion will need to be spent on transmission upgrades before 2030, and another $22 billion on distribution.

The members of the Energy Transition Framework are:

Alpine Energy, Aurora Energy, BusinessNZ Energy Council, Clarus, Contact Energy, Electricity Networks Aotearoa, Energy Resources Aotearoa, the Electricity Retailers and Generators Association, Far North Solar Farm, Flexforum, Genesis Energy, Helios Energy, Hiringa Energy, Horizon Energy Group, the Independent Electricity Generators Association, Lodestone Energy, Mainpower, Manawa Energy, Mercury, Meridian Energy, Northpower, Nova Energy, Orion Energy, Pioneer Energy, Powerco, PowerNet, Top Energy, Transpower, Unison Networks, Vector, Elemental Group, Eastland Generation, Electric Kiwi and Octopus Energy.

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