



16 July 2020

Jonathan Young
Chairperson
Economic Development, Science and Innovation Committee
Parliament Buildings
Wellington 6160

Sent via Parliament website: www.parliament.nz

Dear Mr Young

Gas (Information Disclosure and Penalties) Amendment Bill

Firstgas Group welcomes the opportunity to submit on the *Gas (Information Disclosure and Penalties) Amendment Bill* (the Bill), currently being considered by the Economic Development, Science and Innovation Committee. Firstgas continues to endorse a regulated approach to information disclosure, and the enabling provisions in this Bill, to support a well-functioning and transparent gas market.

We also suggest two areas where the Committee should extend the scope of the changes being considered. The first is to add unauthorised activities within pipeline easements to the list of offences under the Act. This would help to deter unauthorised activities that have the potential to cause significant industry disruption. The second is to consider improvements to the reserves and production information that is submitted by gas producers and informs downstream investment decisions. We consider that improving upstream gas disclosures would help to promote the objectives of the Act.

Attachment 1 provides a summary of Firstgas Group.

Support for provisions to enable increased information disclosure

Firstgas supports the proposed amendments to strengthen the regulation-making powers in the Act to provide for enhanced information disclosure requirements.

We have consistently advocated for increased disclosure in this area through our submissions to the Gas Industry Company (GIC) and Ministry for Business, Innovation and Enterprise (MBIE).¹ Disruptions at gas production facilities have significant physical and financial impacts on the gas market (and broader energy market). Having consistent and timely information on gas production outages would help build confidence in a well-functioning and transparent gas market.

The Bill suggests that information on production outages can have efficiency implications for the gas sector, as well as related sectors (including electricity). We agree that efficiencies for maintenance planning and production outages could be made if greater information is known. This should help mitigate the risks that MBIE has identified from limits on information, such as increased spot prices for gas increasing other energy prices.

Proactive disclosure of gas storage information

Firstgas has committed to voluntary disclosure of any planned interruptions at the Ahuroa gas storage facility.² This disclosure mirrors the new requirements being proposed under the Bill and has been facilitated by the Petroleum Exploration and Production Association of New Zealand (PEPANZ).

We voluntarily disclose any planned interruptions at Ahuroa that may result in the loss of gas flowing into the network. This began as of 19 June 2020. We have found this disclosure to be easy to manage and very little additional work.

¹ See https://firstgas.co.nz/wp-content/uploads/Firstgas-submission_GIC-Information-disclosure-problem-assessment.pdf and https://firstgas.co.nz/wp-content/uploads/First-Gas-submission_Options-for-amending-the-Gas-Act-1.pdf

² www.flexgas.co.nz

Support for increased penalties

Firstgas supports the proposed increased penalties from \$20,000 to \$200,000. We believe this accurately reflects the risks associated with failing to comply with the Gas Act. It would also bring the gas market in line with the similar penalties in the electricity sector. We are satisfied that the increased penalties would actively encourage compliance and ensure a secure gas market for all.

Suggest adding unauthorised activities to the list of offences

We recommend that the Committee considers adding unauthorised activities on pipelines to the list of offences under the Gas Act. We believe stronger mechanisms are required to adequately deter individuals and organisations from engaging in conduct that has the potential to damage pipeline infrastructure and disrupt fuel supply.³ The incident on the Refinery to Auckland (RAP) pipeline in September 2017 provides a clear example of the harm that can occur with unauthorised access to critical infrastructure.

From our experience operating and maintaining gas networks, unauthorised access to pipeline easements poses clear risk to public safety and the integrity of gas supply. We undertake a range of activities to highlight easement areas (such as signage asking parties to contact us before doing any work in the area and regular landowner visits). However, we still have instances of unauthorised access and damage to our assets. Although serious damage to pipelines from third party activity is rare, it is important to be able to deter unauthorised activity and stop these activities quickly when they do occur. Our experience is that it is very difficult to respond urgently to unauthorised activity within the easement while it is still occurring.

Firstgas considers that the existing legal remedies, sanctions and enforcement mechanisms are insufficient to adequately deter individuals and organisations from engaging in conduct that has the potential to:

- Damage pipeline infrastructure
- Disrupt the supply of fuel to thousands of people and businesses
- Involve potentially serious risks to life and the environment.

Unauthorised activities are not only carried out by lay-people. Our field technicians have previously identified and responded to unauthorised activity by contractors engaged by large commercial organisations that are aware of the applicable restrictions around pipelines (e.g. the trenching works carried out before our field technicians arrive). This reinforces our view that a lack of knowledge is not the issue, but rather a willingness to run the risk because of the limited repercussions. Specifying unauthorised activity within pipeline easements as an offence under the Act may help to focus the mind.

Suggest improving gas production and reserves disclosures

Alongside the current focus on outage information, we encourage the Committee to consider measures to improve the disclosure of gas production and reserves. Our engagement with gas users and property developers highlights that there is a real lack of information and understanding of the security of New Zealand's gas supply. This leads to consumers of all types and sizes being less willing to connect to gas due to concerns that remaining reserves and production will not meet their future needs.

The gas statement of opportunities under Part 15D of the National Gas Rules⁴ in Australia as an example of what improved disclosure might look like. Under the Australian regime, gas producers are required to give forecasts of production volumes, undeveloped reserved and contingent resources. Importantly this information allows expected costs of production to be estimated for both existing reserves and contingent resources. Overall, this provides an enhanced view of likely future gas availability and costs, which we believe would better support the efficient use of gas and a competitive gas market.

³ https://firstgas.co.nz/wp-content/uploads/First-Gas-submission_Options-for-amending-the-Gas-Act-1.pdf

⁴ <https://www.aemo.com.au/Gas/National-planning-and-forecasting/Gas-Statement-of-Opportunities>



Contact details

If you have any questions regarding this submission, please contact me on 027 290 1861 or via email at william.hancock@firstgasgroup.co.nz.

Yours sincerely

William Hancock
Regulatory Analyst



Attachment 1 – About Firstgas Group

Our vision is to lead the delivery of New Zealand's energy in a changing world. Our mission is to safely and reliably deliver energy that's affordable and accessible to Kiwi families and businesses. We're really proud of this and of the important role we play in Kiwis' lives.

Based in New Plymouth, Firstgas Group is an umbrella brand consisting of Rockgas, Firstgas, Flexgas and Gas Services NZ. Firstgas and Rockgas are consumer brands that supply LPG and natural gas to over 165,000 customers through their gas network of over 2,500 kilometres of high-pressure transmission pipeline and 4,800 kilometres of distribution pipeline in the North Island, 36 local LPG suppliers, and over 180 Refill and Save locations across New Zealand.

Flexgas and Gas Services NZ are energy storage, operations and maintenance brands who make sure gas can be delivered safely and continuously. Flexgas operate the Ahuroa gas storage facility in central Taranaki. Gas Services NZ provides operational and maintenance support to all gas infrastructure owners, including the brands within Firstgas Group.⁵

In New Zealand, effective large-scale energy storage options are limited to hydro storage, predominantly in the South Island, Ahuroa gas storage and the coal stockpile at Huntly Power Station in the North Island. On its own, Ahuroa has a similar energy storage capacity to the sum of all South Island hydro storage. We believe Ahuroa will play an important role over the next decades as more intermittent renewable electricity generation is integrated into the electricity market and coal is phased out and when South Island storage capacity is low or unavailable.

Firstgas Group is investigating opportunities for using our assets in ways that help to reduce New Zealand's carbon emissions. Our gas transmission and distribution networks cover much of the North Island and are ideally placed to support the development, transfer and use of emerging fuels such as hydrogen and/or biogas. In 2020, we will complete feasibility studies into the use of hydrogen in our gas network. This will be followed by a physical trial on part of our network. The feasibility work is part funded by the Provincial Growth Fund and we are working with the National New Energy Development Centre establishment team to understand how our project might fit with the center's remit

⁵ For more information on the Firstgas Group, visit www.firstgas.co.nz, www.rockgas.co.nz, www.flexgas.co.nz