

17 April 2019

Paul Cruse
Gas Industry Company Ltd
WELLINGTON 6140

Dear Paul,

Re: MGUG Submission on GIC's Consultation Paper - Options for Information Disclosure in the Wholesale Gas Sector

1. We attach our submission on the Gas Industry Company (GIC) Consultation Paper - Options for Information Disclosure in the Wholesale Gas Sector. This submission is being made on behalf of the Major Gas Users Group (MGUG):
 - a. Ballance Agri-Nutrients Ltd
 - b. Fonterra Co-operative Group
 - c. New Zealand Steel Ltd
 - d. Oji Fibre Solutions Ltd
 - e. Refining NZ
2. Nothing in this submission is confidential and some members may choose to make separate submissions.
3. MGUG was represented at the workshop held at the GIC offices on Wednesday 27th March 2019, which fleshed out the issues and views of various parties in the gas supply chain. We found the workshop useful in terms of helping our understanding of how other parties viewed this topic and it has helped to shape our views in this submission.
4. We have also reviewed the information supplied in the GIC paper (Appendix A) in relation to Information Disclosure in other countries and markets. This has been useful in demonstrating the degree to which public disclosure in New Zealand is aligned with practices in similar jurisdictions. This is particularly in Australia where similar market structures to New Zealand exist and with similar features in relation to tight supply and demand conditions¹.
5. We have considered our submission in two parts:
 - a. What information is currently missing, but important in terms of our member's ability to effectively manage their operations and make informed investment decisions.
 - b. Whether relevant information can be acquired contractually through bilateral contract arrangements and/or through paid services, and whether it is reasonable and efficient to expect all market participants to gain information through these means.

¹ ACCC and GMRG Joint recommendations – Measures to improve the transparency of the gas market – Executive Summary - <http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/ACCC-GMRG%20Measures%20to%20Improve%20the%20Transparency%20of%20the%20Gas%20Market.pdf>

6. Whether through contractual or public arrangements, MGUG considers *information symmetry to be central to the efficient functioning of markets*. This broad economic principle underpins much of the reasoning for information disclosure in jurisdictions noted in Appendix A.
7. Secondly in determining what information should be provided we apply a relevance test. The concept of relevance implies that *information should impact the decision-making of someone perusing the information*. Both *content* and *timeliness* is what makes information relevant
8. The events around Pohokura in 2018 that triggered this information disclosure review impacted members in different ways. Not all members had arrangements for gas supply from Pohokura and so were not impacted by any supply problems or any communication challenges. However where supply arrangements included Pohokura, members were impacted by the supply problems and also experienced communication challenges; their experience was that suppliers were not able to inform them fully, or in a timely way. This left them poorly equipped to be able to deal with the consequences of the outages.
9. MGUG members appreciate that their size permits them to have more both more understanding of what information is relevant, and more leverage with suppliers to access information that smaller parties might have difficulty getting through their retailers. However the stronger argument for more generally available information is that even large users are ultimately affected by the decisions of smaller players who are part of the energy market network. If smaller or weaker parties lose confidence in the market because of its opaqueness it can adversely affect overall demand and market diversity that could expose larger consumers to greater cost burdens in other gas infrastructure (gas transmission/ distribution). Furthermore demand destruction reduces incentives for developing further gas supplies.
10. There are other indirect effects also of information asymmetry, particularly through the electricity market as noted in a recent letter to GIC from Meridian dated 29 March 2019. Opaqueness in gas arrangements will have an impact on both electricity spot prices and hedge contracts if generators have to price in the additional uncertainty of gas outage information and future gas supply conditions.
11. In general, relevant information for MGUG members that relate to the gas information disclosure discussion are:
 - a. Will I be able to receive the gas that I have contracted for when I need it?
 - b. How secure is my supply on a short term and long term basis?
 - c. What investments do I need to consider to mitigate price and security risks in the market?
 - d. Can I get sufficient warning of supply disruptions to inform my operational contingency planning?
12. The limitation of this information through bilateral agreements is that these questions can only be addressed directly with the counterparty. Where the information sits outside of the counterparties there is a reliance on public disclosures to fill the information gap.
13. There are various public sources that assist with decision making, including through published data provided by MBIE (Energy in New Zealand), and listed companies' websites. However in many cases the information may neither be timely nor effective.

- a. **Some information lacks sufficient content** to enable effective decision making.
Examples include:
- i. **Reserves and contingent resource information** that lack explanation into sources of contingency, and investment programs that need to be delivered to bring reserves to market and resources to reserves category. We contrast this with what is available in the East Coast gas market in Australia. The annual Gas Statement of Opportunities (GSOO) include a breakdown of reserve information in terms of developed vs undeveloped reserves, 2C, and also Prospective Resources. It also provides the expected marginal production costs in \$/GJ of both 2P and 2C resource estimates. The content of this information is much more useful than what is provided currently in New Zealand through MBIE. In particular, the indicative marginal production cost information would help inform decisions about alternative fuel investment and/or gas import.
 - ii. **Outage information.** Reasons for outage, projections of duration, and limits on the accuracy of the information are not disclosed generally. We note that even today there is a lack of clarity on progress and timing of the current Pohokura repair work.
 - iii. **Deliverability.** The information on maximum and minimum deliverability for each field is historic and of limited value – maximum and minimum deliverability going forward would provide more useful information.
- b. **Some information is not timely.** Examples include:
- i. MBIE Reserves and resources information that are typically 7-8 months out of date before they are published.
 - ii. Outage information relevant to the market (such as in the Pohokura events last year). These lacked both insight in terms of why the information might be important to the market, and also lacked any effort to regularly update the status of progress to achieve normal production.
 - iii. Gas price information aggregated by MBIE from wholesalers and retailers and published annually in *Energy In New Zealand* is 7-8 months out of date. It is also published only annually, whereas production data is published quarterly.
- c. **Not all information is easy to locate.** Examples of scattered and fragmented information include:
- i. Ahuroa gas storage – *net movements* in storage are published a month in arrears, but not actual storage unless people search for the last time it was reported (usually buried in a news article or an annual report).
 - ii. emsTradepoint – FRMI and FRQI indices can be tracked from the website for free provided that it is monitored every day and recorded every day. The alternative is to pay for a view only subscription.

d. **Not all relevant information is publicly available.** Examples include:

- i. Production and storage facility deliverability. For example we understand that Ahuroa gas storage deliverability is a function of storage levels. This seems to be information relevant to inform the electricity market on fuel supply.
- ii. emsTradepoint information that sits behind the pay wall, e.g.– FRMI and FRQI indices

14. Information disclosure is adequately managed in some parts of the supply chain and has clear mechanisms for adapting to changing demands or requirements. MGUG for example is comfortable with the transmission information disclosure and the ability to modify these via Change Request controls within the GTAC code.
15. The workshop at the GIC ranged broadly and robustly across a number of issues. There seemed to be some consensus that information disclosure could be improved, even if there was some difference around specifics that should be disclosed. From MGUG's perspective we would be happy for the industry to find ways to improve the quality of information that is generally available with regard to improved content and timeliness (both in terms of currency of the information and the frequency of the reporting). If some consensus with party sign off can be achieved around the following topics (including guidelines) then it might be appropriate to see whether any more rules based information disclosure is required :
 - a. Planned Outage information from Producers affecting more than 5% of the gas market;
 - b. Unplanned Outage Information affecting more than 5% of the gas market;
 - c. Field Deliverability from production;
 - d. Gas storage and gas storage deliverability;
 - e. More timely release of aggregated price information from MBIE and an accommodation with emsTradepoint on their previously disclosed FRQI and FRMI information;
 - f. Improved context around reserves and contingent resource information. We suggest the GSOO information for East Coast Australia provides a useful model of what would also be valuable for New Zealand.

Yours sincerely



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Secretariat for the Major Gas Users Group