

9 December 2019

Paul Cruse

Gas Industry Company Ltd

WELLINGTON 6140

consultations@gasindustry.co.nz

Dear Paul,

Re: MGUG Submission on GIC's Information Disclosure Problem Assessment

1. We attach our submission on the GIC's Information Disclosure Problem Assessment. 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. We have addressed our views directly in responses to the questions in the Problem Assessment paper. In our submission dated 17 April 2019 on the first Options Paper, we noted that for our members relevant gas market information is information that impacts directly on members' ability to prudently manage their day to day operations and allows for informed investment decisions. These perspectives continue to be the framework we test our responses against.
4. We therefore welcome the opportunity to address these matters further in response to the GIC's paper on Information Disclosure Problem Assessment.

Yours sincerely



Richard Hale/Len Houwers

Hale & Twomey Ltd/Arête Consulting Ltd

Secretariat for the Major Gas Users Group

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Submission prepared by: Major Gas User Group

Question	
Q1:	Do you have any comments on our approach to the analysis?
	<p>It seems to us that in its approach GIC could be seen as focussed on the need to prove that <i>information should be made available</i>. We question whether that is a necessary or helpful position, given GIC accepts that free-flowing, timely, and accurate information is a key element of a well-functioning market. We would therefore suggest that GIC considers whether the principle of a bias for transparency might not be a useful principle to test across its assessment process.</p> <p>We also consider that the assessment should also provide clarity on how domestic market interests are weighed against private commercial interest, i.e. which has overriding priority, and how will arguments for withholding information on private interest grounds be assessed against the wider interest of an efficient domestic market.</p> <p>We suggest a distinction is made in assessing economic efficiency between allocative efficiency (short run marginal cost decisions) and dynamic efficiency (long run marginal cost) when assessing disclosure needs. This is an important issue for our members as we note in our covering letter (para 4 above).</p> <p>We also suggest that fairness needs to consider different disclosure requirements between listed and unlisted companies e.g. whether it is fair that unlisted companies should be less transparent than listed companies.</p>
Q2:	Have we identified all of the relevant information elements in this list?
	<p>In general yes, however we would caution against the statement that information that has no particular immediacy (e.g. forecasts of projected production or regular updates of market volumes and prices) may fit better with either a rules-based or voluntary approach. Information that has no particular immediacy may still be important for well-functioning markets if efficiency is addressed at a dynamic level. We deal with this more specifically in Q10.</p>

Q3:	Do you agree with our assessment for gas production outage information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response.
	Yes, we agree.
Q4:	Do you agree with our assessment for major gas user facility outage information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response.
	We support the arguments in favour of disclosing outages of major gas users. In principle MGUG has no objections to disclosing outage information. Our members currently provide information on major maintenance outages in the NZ Wide Plan which is provided by and publicly available through Jam Solutions. The plan allows for more effective shutdown coordination when outages compete for a fixed skilled labour and equipment pool. There is very little cost associated with providing this information. We note that all our members compete in an international market and commercial impacts of disclosure are managed as part of the outage planning.
Q5:	Do you agree with our assessment for gas storage outage information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response.
	We agree
Q6:	Do you agree with our assessment for transmission pipeline outage information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response
	We agree.
Q7:	Do you agree with our assessment for contract price and volume information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response

	<p>Rather than deciding that contract price volume and information not be included in the statement of proposal we urge the GIC to consider ways that existing information can be adapted, or new information aggregated in ways that enhance market transparency without compromising legitimate commercial imperatives of individual players.</p> <p>Various pieces of gas price information are scattered across a range of sources. Each on their own has limitations, but considered together they can still synthesise a clearer picture of the economic value of gas. For example, MBIE currently produce weighted wholesale price information annually. This could be encouraged to be provided quarterly. EmsTradepoint has a standard wholesale product for weekly and monthly gas strips traded in the day ahead market that provides information on the marginal value of the basic commodity. Generators such as Genesis breakdown volume weighted average price of gas for different retail market sectors as well as weighted average gas burn costs for generation (effectively a wholesale price for generation). Methanex discloses that its gas price is commodity linked, and the price of the commodity is published to give insights into gas price direction for Methanex. Other pieces of information arise from time to time through various public announcements or market commentary.</p> <p>emsTradepoint has offered a solution that deals with some of the objections around party disclosure. Equally the GIC could also consider creating a central point for market intelligence on gas price and develop useful gas price indices that would assist the market.</p>
Q8:	<p>Do you agree with our assessment for emsTradepoint price & volume information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response</p>
	<p>We agree that this unlikely to be an issue for the larger players in the gas market, including MGUG members. The read-only platform access fee is not material to most large users who would find this information valuable. We have no clear view on whether the cost of disclosure is a barrier to smaller industry participants but suggest that the GIC considers this in their assessment.</p>
Q9:	<p>Do you agree with our assessment for gas storage facilities information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response.</p>
	<p>Gas Storage Information, particularly inventory, in our view, falls in the category of knowable information (where information can be derived from other sources) and should just be made available since there is no argument for not disclosing it more directly. (Gas inventory at Ahuroa can be inferred from other public sources. i.e. gas flows from the transmission system, average generation at Stratford, each reported daily).</p>
Q10:	<p>Do you agree with our assessment for gas production forecast information? Have we missed aspects of the issue or are there parts that have not been described correctly? Please include details and any examples in your response</p>

We do-not agree that gas production information is simply a matter of information timing, although we do agree that MBIE should be the lead on this topic, with the GIC remaining involved to ensure that production forecasts also meet the need for dynamic efficiency in the gas market.

Our disagreement stems from the value of the gas production information itself which is restricted to 2P production profiles only. 2P profiles on their own are rarely reliable over longer timeframes. Both downstream users and midstream providers rely on long term supply information to assess investment alternatives. 2P production profiles in New Zealand tend to signal two things; gas demand will exceed supply in the short to medium term, and therefore, in a closed market, the price of gas will increase. Both will bias investment away from gas earlier than is dynamically efficient. We contrast this with what the AEMO publishes in its Gas Statement Of Opportunities. A 3-year production forecast includes undeveloped reserves and contingent resources as well as developed reserves. The AEMO takes a fully integrated perspective across both the demand and supply across the electricity and gas sectors and inherent in this approach is the view that this greater information transparency is required to coordinate investment planning across both sectors.

Hence we would urge the GIC to share with MBIE the case to widen supply information to ensure dynamically efficient market outcomes.