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## TRUSTPOWER SUBMISSION: GIC FY2020 WORK PROGRAMME AND LEVY

Trustpower appreciates the opportunity to submit on the Gas Industry Company's ("GIC") *FY2020 Work Programme and Levy*.

This submission focuses specifically on the need to address information asymmetry in the gas market given recent electricity market events<sup>1</sup>.

### Recent experience in the gas and electricity markets

Information asymmetry in the gas market can have significant implications for outcomes in both the gas and electricity markets in New Zealand.

The unplanned gas production facility outage which occurred in late 2018, highlighted the intertwined nature of the gas and electricity markets. In particular, the fuel supply restrictions that occurred in the gas market had serious implications for electricity market customers, with smaller retailers lodging a claim with the Electricity Authority that an undesirable trading situation occurred. We note that an electricity retailer was also forced into default around this time.

While the outcomes from the Electricity Authority's investigation have not yet been released, the experience has in our view reinforced that information transparency is vital to the overall effective operation of both the electricity and gas markets. As a result, we strongly support the GIC's work programme to address information asymmetry within the gas market.

### Significant benefits from information disclosure

Transparency of information has significant benefits in ensuring a competitive and efficient gas market through enabling more efficient decision making, reducing information asymmetries, and ensuring a level playing field (to name a few benefits). Information transparency can also have an important role in facilitating monitoring of the development and level of competition in the gas market, along with identifying any incidents of potential market power abuse.

Trustpower has supported progression of work to address information asymmetry for a number of years. In last year's corresponding submission on this topic we noted:

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<sup>1</sup> Note that we have not reviewed in detail the other elements of the GIC's proposed work programme and levy due to time constraints.

*“... during FY2019 there would be value in the GIC facilitating an independent review of the current level of information transparency in the New Zealand gas market with a view to identifying areas for improvement across the industry, including through potential new regulatory arrangements ... Given the stage in the industry’s development, we consider it is timely to undertake a comprehensive review of information transparency as it is an integral part of achieving all the Gas Act and Government Policy Statement objectives.”<sup>2</sup>*

Likewise, as part of our response to the Revised Draft Gas Transmission Access Code in September 2017, we recommended that:

*“... given transparency of information is pivotal to ensuring that the Gas Act and GPS objectives can be achieved, the development of regulatory arrangements to enhance transparency of information should be included on the Work Programme for the GIC (and MBIE) for FY2019.”<sup>3</sup>*

We continue to consider that improving information transparency is an integral part of achieving all the Gas Act 1992 (the **Act**) and Government Policy Statement (**GPS**) objectives.

### **Trustpower’s preference is for a regulated solution**

In Trustpower’s view, the preferred outcome for improving information transparency in the gas industry is a regulated solution.

A number of commercial sensitivities can arise in relation to core aspects of the market arrangements where transparency may be sought, including facility outages. As a result opaqueness may be preferred by some parties.

Given the varying commercial drivers and clear benefits to the overall market associated with information disclosure (as outlined above), we consider there will most likely be a need for a legislative requirement for information to be made publicly available in a timely manner. Alternatively it is likely that the commercial drivers of existing parties may limit the improvements that can be achieved through this workstream.

### **Support interim voluntary solution being progressed**

It may however take some time for the Act to be updated to enable the necessary new regulations to be established. Subsequently, we consider that a voluntary solution should be progressed in the interim.

An interim voluntary solution could have the advantages of speed and ease of implementation and may lead to a general improvement on the status quo.

As was the case with the electricity sector, the development of a credible regulatory threat may provide sufficient impetus for a voluntary solution to be enduring. However, a voluntary arrangement, while faster to implement, will potentially experience challenges in the longer term particularly given the differing

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<sup>2</sup> Trustpower submission: *GIC FY2019 Work Programme and Levy* at p 4, online at: <https://www.gasindustry.co.nz/assets/Consultations/Uploads/Trustpower-GIC-Work-Programme-and-Levy-Funding-FY2019-Final.pdf>

<sup>3</sup> Trustpower submission: *Revised Draft Gas Transmission Access GTAC* at p 17, online at: <https://gasindustry.co.nz/assets/Consultations/Uploads/Trustpower-Revised-GTAC-Response.docx>

commercial drivers (as outlined above). These challenges with a voluntary arrangement were recently evidenced by the Electricity Authority's need to provide further direction to the market regarding revealing information following the recent undesirable trading situation.

Given the potentially long timeframe involved in:

- Enabling the GIC to regulate information disclosure, via appropriate amendments to the Gas Act; and
- Designing and implementing information disclosure requirements under a regulated solution,

we consider there is merit in progressing a voluntary solution in the interim. This will enable faster facilitation of market growth through improved information transparency and ensure that the objectives of both the Gas Act and GPS can be achieved.

If you have any questions relating to the material in this submission, please contact Craig Schubauer on 021 816 830 or Fiona Wiseman, Senior Advisor Strategy and Regulation on 027 549 9330.

Regards,



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