

Gas Industry Company  
Via email: [consultations@gasindustry.co.nz](mailto:consultations@gasindustry.co.nz)

9 December 2019

## **Consultation Paper – Information Disclosure: Problem Assessment**

Mercury welcomes the opportunity to provide a submission to Gas Industry Co on the consultation paper 'Information Disclosure: Problem Assessment.' Our position on information disclosure in New Zealand's gas markets is unchanged from that expressed in our submission on the previous consultation paper 'Options for Information Disclosure in the Wholesale Gas Sector'. Our responses to the consultation paper questions are appended.

### **Information availability and market efficiency**

Mercury notes Gas Industry Co ('GIC'), in making recommendations to the Minister, must promote the objectives of the Gas Act 1992 which generally reduces regulatory proposals to the promotion of market efficiency, safety or reliability.

The Gas Act and New Zealand's gas sector generally have been regulated on assumption of prevalent market efficiency. This light-handed regulatory approach was once common in many New Zealand markets, but over time has been replaced by various forms of more interventionist regulation. However, unlike electricity and telecommunications for example, the gas market in New Zealand has maintained a relatively light-handed approach to regulation.

Mercury has no comments on whether this light-handed approach to regulation is suitable or preferable to other approaches, but we mention it because a core pillar of a light-handed approach to regulation is that the underlying market is operating efficiently. A central tenet of this from a theoretical perspective is that market participants can act independently based on full and relevant information. Mercury submits that this tenet of market efficiency is limited or missing from elements of the gas market. In other words, there is potential market failure, and a case could be made for regulatory intervention to improve market efficiency.

Mercury suggests that rather than looking to supplement the status quo with information disclosure the GIC should firstly assume full information is or should be available as a basic tenet of market efficiency, and then assess good reasons why certain aspects of the market do not require it. By inverting the problem to this 'ideal state', we believe the case for more information disclosure would be much wider ranging than proposed by the GIC in the paper.

### **Benefits of gas information in the electricity market**

While our comments above relate specifically to the gas market, Mercury submits that if the above was not supported by the GIC, there are sufficient potential positive externalities of better gas information to the electricity market that this would be reason alone for regulated information disclosure. The example of the 2018 Pohokura production outage ably demonstrates the potential benefits of better gas market information to the electricity market, both to generators who may be able to defer or avoid planned maintenance, the system operator to amend coordination, or to retailers looking to manage their risk exposures.

Mercury notes that during the two separate Pohokura outages in 2018 Methanex's production levels were noticeably decreased at times compared to its average or normal production. We estimate that at times during the first Pohokura outage, Methanex used roughly 77% less gas than normal and during the second

outage Methanex typically consumed 50% less gas throughout the outage than normal.<sup>1</sup> These are considerable variances in gas consumption which subsequently had a direct impact on gas availability and therefore the potential trading strategies of thermal electricity generators. Mercury, and other electricity participants less active in the upstream gas sector, would be at a considerable commercial disadvantage to generators with gas information in similar outage situations in the generation market.

To demonstrate further from the perspective of a retailer, the value of the information asymmetry from the Pohokura outage(s) would theoretically be the costs avoidable by a retailer who was unaware of the outage for the entire period between the outage first occurring and information being made available subsequent to the outage. During this period a retailer would be exposed to higher wholesale electricity prices and would have insufficient information on the cause of these prices and the basis on which to organise sufficient, or any, risk management instruments. The cost difference between these two information points could have been millions of dollars over a period of several weeks from a single event. While the higher prices might have been unavoidable, having full information on gas outages could have allowed a retailer to seek cover.

We support the GIC working with the Electricity Authority on this. We also note s43ZN(b)(i) of the Gas Act specifically refers to “New Zealand’s energy needs” so we think making a the limb of ensuring competitive market arrangements could apply more widely than a specific focus on gas as a fuel, particularly alongside s43ZN(b)(v) which requires proper and efficient management of risks relating to security of supply (of New Zealand’s energy needs).

Refer to the cover letter in our submission on the ‘Options for Information Disclosure in the Wholesale Gas Sector’ for additional comments on the electricity market.

### **Different forms of regulation available**

In addition to the GIC’s discussion that approaches to information disclosure could be in the form of a principles-based, rules-based or voluntary approaches, we also note the type of intervention could change depending on the benefits and scope of potential missing information. For example, using a positive externality approach, it might be most viable for the GIC to consider recovering levies in order to offset costs participants would incur in providing information.

It is not immediately obvious to us what type of confidential information Methanex holds such that it does not support information on outages but as the main consumer of gas in New Zealand any sort of information regime must include some information on its consumption. We suggest the GIC works with Methanex on this. A potential solution is to trace the information disclosure further upstream where Methanex’s production is anonymised or aggregated.

### **PEPANZ voluntary process**

We note that PEPANZ has prepared a voluntary information disclosure regime and also that the GIC must be satisfied any regulatory objectives cannot be met by non-regulatory means. Mercury reserves comment on that process but asks the GIC to pursue whichever option it thinks will ensure optimal gas information availability for all participants.

If you have any *questions* on this submission, please contact me at [john.bright@mercury.co.nz](mailto:john.bright@mercury.co.nz).

Yours sincerely,



John Bright  
**Regulatory Strategist**

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<sup>1</sup> All numbers construed from Gas Industry Co’s presentation to the Security & Reliability Council (October 2019)



Question		Comment
Q1:	Do you have any comments on our approach to the analysis?	Mercury accepts the GIC's approach to the analysis.
Q2:	Have we identified all of the relevant information elements in this list?	Yes.
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.	<p>Yes. There are clear benefits to a variety of gas market participants including upstream producers, downstream users, traders, and those in related markets from efficiency, fairness and reliability perspectives.</p> <p>We do not think the costs of such a scheme will outweigh the benefits, even if the benefits may be difficult to quantify. Even basic information hosted on the GIC's website would be a material improvement on the status quo which would come at negligible cost. We note Todd's point that reliance on outage information may create a risk for the discloser, however an understanding that information was provided on a best endeavours basis could ward off any concerns.</p>
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.	<p>We support major gas users having to disclose information on their planned and unplanned facility outages. Relatively few parties consume most of the gas in New Zealand and significant changes in demand can have a large impact on the price and supply of gas which, at the very least, can influence the electricity sector. This can manifest itself in the form of different bids or trading strategies in electricity generation.</p> <p>As mentioned in our cover letter, if Methanex is concerned this disclosure would be costly or commercially sensitive we welcome efforts to disclose outage information further upstream (i.e. at a welded point or gas field level) or some other way of aggregated/anonymous data.</p>
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.	Yes, we agree with the assessment.
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.	Yes, we agree with the assessment if OATIS/TACOS publicly displays this information in a timely manner (and will always do so).
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	<p>No.</p> <p>Mercury is comfortable with bilateral parties not having to disclose confidential information however the prevalence of bilateral contracting makes it difficult for other market participants to have a reasonable insight into the current wholesale price (and volume) of</p>



	response.	<p>gas. This price information is vital for energy generators and retailers. Short term prices and volatility can have an impact on energy retail strategies and long-term price trends will also impact retail strategies as well as decisions on electricity generation investment. This may be even more important in the event no further gas fields are discovered in New Zealand – the scarcity value of gas would signal the need to potentially invest in import facilities or alternative fuels entirely.</p> <p>We endorse the GIC working with emsTradepoint on the latter's suggestion of publishing all wholesale market transactions and taking whatever steps necessary to ensure this information is anonymous. We see no credible way of achieving this without requiring disclosure of Methanex's price/volume as it is such a key user in New Zealand. Refer to our cover letter for how this impacted the electricity sector in 2018.</p>
Q8:	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>Yes. We are satisfied to pay for "premium" information provided there is a reasonable level of information publicly available.</p> <p>We also agree with the GIC that any changes to emsTradepoint's disclosure arrangements should see this assessment reviewed, with a lessening of information leading to regulatory intervention.</p>
Q9:	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>Yes, we welcome more information being available generally.</p>
Q10:	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 are satisfied for this to not be included in a Statement of Proposal on the basis of MBIE already publishing it, but we welcome the GIC working with MBIE on making it timelier.</p>
Q11:	Do you agree with our assessment for thermal electricity generator gas position 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>Yes, we welcome a joint approach between the GIC, the EA and electricity participants on this.</p>
Q12:	Do you agree with our assessment for major users' forecast gas consumption 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>Yes, we agree with the assessment on the basis that more timely production forecast information can be made available.</p>

