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Gas Industry Co
Level 8, The Todd Building
95 Customhouse Quay
PO Box 10-646
Wellington 6143

By email: info@gasindustry.co.nz

Information Disclosure: Problem Assessment

Meridian appreciates the opportunity to provide feedback on the Gas Industry Company's (GIC) consultation paper *Information Disclosure: Problem Assessment*. We are however concerned by the slow progress to date.

The GIC has been aware for some time of problems with gas market information disclosures. The Minister of Energy and Resources wrote to the GIC on 25 July 2018 expressing concern that information disclosure requirements for gas industry participants may be insufficient and have an impact on the market.¹ The GIC's response to this letter agreed that information disclosure in the sector could be improved and that markets work best when all parties have access to information that enables them to make informed decisions.²

Nine months after the Minister's letter the GIC published an options paper in April 2019 followed by a round of submissions and cross-submissions. Now at the end of 2019 the GIC is consulting on what it now says is stage one of a six-stage process to prepare a statement of proposal for the Minister. At this rate it will be years before the GIC delivers a statement of proposal to the Minister. Meridian would like to see more rapid progress and delivery of a proposal as soon as possible in 2020. Our view aligns with the Electricity Price

¹ <https://www.gasindustry.co.nz/dmsdocument/6412>

² <https://www.gasindustry.co.nz/dmsdocument/6414>

Review finding that “the Gas Industry Company should complete its work as soon as practical.”³

The responses to the March 2019 Options Paper revealed strong support for mandatory disclosure requirements, with only a small handful of gas producers (Greymouth Gas, OMV, PEPANZ, and Todd) suggesting otherwise. We note that the GIC submission analysis mischaracterised Meridian’s submission as supporting an industry led approach to information disclosure.⁴ In fact, Meridian’s submission clearly sought gas disclosure requirements “the same as those under electricity wholesale market rules” i.e. a regulated approach like that in electricity.⁵ We noted that voluntary measures from the industry could usefully be pursued with urgency but that this would be an interim step while more extensive requirements were developed.

Meridian remains of the opinion that given the interconnected nature of the electricity and gas markets, information disclosure rules should be broadly consistent to increase efficiency and promote consumer benefits. The disclosure obligations in the Electricity Industry Participation Code hold all electricity participants to a common “material impact on prices” disclosure standard. The Code provides only minimal exceptions to this standard and information, where it is to be disclosed, must be made readily available to the public free of charge. The electricity rules have proven to be workable for the sector and we see no legitimate reason why the same standards could not be met for gas.

The development of the industry notifications page on the GIC website and steps by PEPANZ to develop a voluntary disclosure code for planned outages are both positive interim steps but fall short of what is required to provide assurance to downstream markets across the energy sector that sufficient information is available to all participants to enable efficient outcomes in the best interests of New Zealand consumers. Meridian is not confident that the current voluntary disclosure mechanisms will be durable in the long term or continue to be complied with by all parties given the lack of any monitoring, enforcement or repercussions for non-compliance. Therefore, the voluntary arrangements should not hinder or prevent the GIC from rapidly developing a regulated disclosure regime.

³ <https://www.mbie.govt.nz/assets/electricity-price-review-final-report.pdf> page 42

⁴ <https://gasindustry.co.nz/dmsdocument/6589>

⁵ <https://gasindustry.co.nz/assets/Consultations/Uploads/Meridian-Submission-Wholesale-Gas-Disclosure-Options-17-April-2019.pdf>

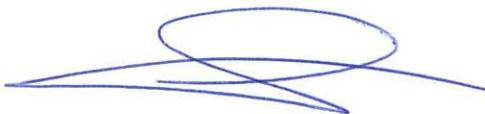
The need for haste is now even more pronounced because the Electricity Authority has written to Meridian and other market makers in the ASX New Zealand electricity futures market threatening to impose mandatory market making obligations unless we 'voluntarily' reduce bid-ask spreads to no more than 3% and increase the volume of all contracts with market making to 3MW.⁶ Meridian believes inadequacies in gas market disclosure, and the uncertainty this creates, are a key driver of electricity spot market and futures volatility. Meridian considers that any steps to improve market making need to be accompanied by strong steps to improve gas market disclosure. We ask the GIC and Electricity Authority to work together to resolve this issue with urgency.

The GIC analysis seems to assume a piecemeal approach that requires targeted disclosure of specific information. As we have said before, Meridian's view is that information which has the potential to materially impact wholesale prices in the gas or electricity markets should generally be disclosed. A principle-based approach like this lessens the need for independent consideration of different classes of information. However, for some classes of information (notably, contracted gas prices and volumes) a targeted approach might be useful to enable commercial sensitivities to be managed while still disclosing useful aggregate and anonymised information to the market.

Meridian's responses to the consultation questions are appended.

Please contact me if you have any queries regarding this submission.

Yours sincerely



Sam Fleming
Regulatory Counsel

⁶ <https://www.ea.govt.nz/dmsdocument/26110-letter-from-the-authority-to-meridian>

Appendix: Response to consultation questions for certain proposals

	Question	Response
1	Do you have any comments on our approach to the analysis?	<p>We are pleased to see the GIC's consideration of the implications of gas information transparency for related energy markets (particularly the New Zealand electricity market).</p> <p>The assessment framework includes an evaluation of the costs of disclosing various types of information. The focus just on costs throughout the paper is unbalanced and Meridian encourages the GIC to evaluate both the costs <u>and benefits</u> of disclosures and where possible more formally quantify those costs and benefits. Gas market participants will no doubt provide information about the immediate costs of disclosure, however Meridian considers it likely that such costs will generally be outweighed by the significant (albeit relatively harder to quantify) efficiency benefits of free-flowing, timely and accurate market information.</p> <p>The obligation in section 43N of the Gas Act to assess the benefits and costs of each option rests with the GIC and not with submitters. Throughout the consultation paper the GIC dismisses the opinions of those seeking information disclosure by saying parties did not provide enough specific detail or supporting information about the benefits of disclosure. The GIC itself needs to consider the full range of benefits and should contract expert economic advice on the benefits of information disclosure if it is incapable of carrying out this assessment itself.</p>
2.	Have we identified all of the relevant information elements in this list?	Yes.
3.	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. However, we disagree that there are "no identifiable impacts on environmental outcomes from a lack of information transparency regarding gas production outages". We consider there to be potential environmental outcomes as a result of better information disclosure, including:

		<ul style="list-style-type: none"> • better information about the costs and benefits of gas relative to renewable fuels for electricity generation investments; and • better management of gas generation risks by electricity market participants and therefore more efficient electricity prices; this in turn could have an impact on consumer decisions regarding the electrification and decarbonisation of transport and industrial process heat.
4.	<p>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>	<p>In terms of reliability and security of supply outcomes, the GIC is correct that the risk associated with limited major gas user outage information is less than the risk associated with limited production outage information. However, in terms of efficient outcomes, the benefits of major user outage information disclosure are very similar to the benefits of disclosure of production outages. Both significantly alter the supply demand balance and enable gas market participants and related markets to form opinions about resulting gas availability and price risks. We agree that disclosure of major user outages could signal opportunities for other users to acquire gas. We also agree with emsTradepoint that a lack of information regarding outages has a very negative effect on its market, with corrosive effects on investors' trust and confidence.</p> <p>The GIC states that the benefit to related markets from improved disclosure of major gas user outages is unclear. To be clear, the concentration of the demand side of the gas market means that a major user outage can significantly alter the supply and demand balance in the gas market. Disclosure of this information can signal availability of gas and potential price implications to both thermal electricity generators and other electricity market participants that need to manage risks associated with thermal generation. Electricity market risks increase when there is a shortage of other fuels, primarily water for hydro generation. In these situations, any information that can help participants form opinions about gas availability and price will be of huge value and</p>

		<p>help electricity market participants manage and hedge against risks.</p> <p>Section 43F of the Gas Act empowers the making of gas governance regulations for the purpose of providing for the operation of wholesale markets for gas, including for the provision and disclosure of data and other market information. Meridian considers these empowering provisions broad enough to enable the making of regulatory disclosure requirements that are applicable to a range of parties including major gas users.</p>
5.	<p>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.</p>	<p>Yes.</p>
6.	<p>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.</p>	<p>Yes.</p>
7.	<p>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>	<p>Meridian would like to see disclosure of contract price and volume information and encourages the GIC to further consider this option. Development of a centralised aggregated information source would complement a principle-based disclosure regime for other information that is less commercially sensitive. This would be similar to what occurs in the electricity market through anonymised disclosure of contracts via the Electricity Authority's disclosures website.⁷</p> <p>Meridian agrees that aggregate price and volume information disclosure would aid price discovery. We agree with emsTradeport that better information regarding wholesale gas price and volume would lead to more informed business</p>

⁷ See <https://www.electricitycontract.co.nz/>. Physical electricity supply agreements are not possible in the gross pool wholesale electricity market; however, financial contracts are used in a similar way to gas supply agreements.

		<p>decisions, promoting efficiency in the gas wholesale market. Meridian also considers that disclosure of this information would lead to more informed and efficient decisions in the electricity market, particularly for parties like Meridian that do not have access to any information about contracted gas prices and volumes.</p> <p>While Methanex demand is a significant portion of total demand, Meridian disagrees that disclosure of aggregated and anonymised information would disclose any commercially sensitive information. Methanex contract prices would influence average prices but Methanex prices would not be disclosed.</p> <p>The GIC need not overcome the bespoke nature of gas supply agreements, parties interested in price and volume information will need to understand the limitations of the aggregate information disclosed and the fact that different terms and conditions will apply to each agreement.</p>
8.	<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>Yes.</p>
9.	<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>Yes.</p>
10.	<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>	<p>Yes. We support the GIC working with MBIE on more timely availability of this information.</p>

11.	<p>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>	<p>Yes. We encourage the GIC to support the EA to urgently progress the Wholesale Market Information Disclosure project. Because most if not all large gas supply contracts are subject to confidentiality provisions, urgent Code amendments could be introduced now to immediately disapply, in the case of gas supply contracts and gas market information generally, the provision of the Code that permits the withholding of otherwise material information if it is subject to a confidentiality provision.</p> <p>Meridian considers such steps necessary in advance of or alongside any mandatory market-making provisions to avoid forcing market-makers to incur losses to gas market information insiders.</p>
12.	<p>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>	<p>Yes.</p>