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## TRUSTPOWER SUBMISSION: INFORMATION DISCLOSURE – PROBLEM ASSESSMENT

### 1. Introduction and purpose of GIC’s consultation

- 1.1.1 Trustpower Limited (**Trustpower**) welcomes the opportunity to provide a submission to the Gas Industry Company (**GIC**) on its *Information Disclosure: Problem Assessment* consultation paper (**the Consultation**).
- 1.1.2 The purpose of the GIC’s paper is to identify where there are problems with information transparency and asymmetry in the wholesale gas sector. As part of this assessment, individual information elements are identified that may be included in a future Statement of Proposal (**SOP**) as required under Section 43N(1) of the Gas Act 1992 (**the Act**).
- 1.1.3 The GIC has identified ten information areas or ‘elements’ where they consider there to be information transparency or asymmetry issues. The GIC is proposing to include some of these ‘elements’ in a SOP.

### 2. Trustpower’s view

- 2.1.1 Trustpower believes wholesale gas market information asymmetries can only be satisfactorily achieved through a well-designed information disclosure regulatory regime that covers downstream and upstream information. A voluntary arrangement or industry agreement for information disclosure will not achieve the desired market improvements in our view.
- 2.1.2 We largely support the assessment framework developed by the GIC in the Consultation. However, we urge the GIC to further consider the criteria for assessing the fairness of the arrangements, with a view to ensuring that any new arrangements will maximise symmetry and equity of information provisions across the supply chain.

#### *Areas of agreement*

- 2.1.3 Trustpower strongly agrees with the GIC’s assessment that the following two information elements should be included in a SOP:
  - a) gas production outages information; and
  - b) gas storage outage information.
- 2.1.4 We also agree with the GIC’s view that the following three issues need not be included in a SOP at this time:

- a) transmission pipeline outage information - as this information is covered by provisions within the Gas Transmission Access Code;
- b) emsTradepoint price and volume information - as this information is available on the emsTradepoint platform for a modest subscription fee; and
- c) contract price and volume information - as contracts for gas are generally priced to reflect several characteristics of the agreement including force majeure provisions, carbon pricing, and flexibility. Without broader context, contract information would be meaningless.

2.1.5 We are broadly supportive of the GIC's proposal to work with the Ministry of Business Innovation and Employment (**MBIE**) and the Electricity Authority (**the Authority**) to:

- a) address how forecasts of gas production can be made available on a timelier basis (MBIE); and
- b) review the potentially limited transparency of the gas position of thermal electricity generator's gas positions (the Authority).

As both these are important matters for the gas industry, these should be progressed as a matter of priority while ensuring that the proposed co-working arrangements do not cause unintentional delays.

#### *Matters requiring further consideration*

2.1.6 We consider that information provision requirements should apply symmetrically to gas supply, transportation, storage and usage, recognising the different functions of the facilities, but acknowledging that they all play an important part in determining supply and demand balance, and therefore the market price.

2.1.7 In Trustpower's view the following three information elements ought to be reconsidered by the GIC for inclusion in a SOP:

- a) major gas user's facility outages;
- b) forecasts of major gas user's consumption; and
- c) the quantity of stored gas and the amount of available storage capacity in the Ahuroa storage facility.

2.1.8 Furthermore, the GIC should also consider the mechanisms for information disclosure.

2.1.9 We address the matters outlined in 2.1.7 and 2.1.8 in the rest of this submission.

### **3. Major user's facility outages and consumption forecasts should be disclosed**

*Large users should disclose outage and consumption forecast information to ensure the market delivers an efficient price, including during scarcity events*

3.1.1 Trustpower strongly encourages the GIC to include major user's facility outages and consumption forecasts in a SOP. In gas markets, pricing expectations, operational and investment decisions are not formed in relation to one specific data point. Rather, they require a range of information about gas consumption, supply, storage and risk management in the short, medium and long-term.<sup>1</sup>

3.1.2 It is a well-accepted principle that supply *and* demand balance dictates the market equilibrium, and therefore the efficient market price. Should only one half of the market be obliged to

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<sup>1</sup> <https://www.aemc.gov.au/sites/default/files/content/5ea5bc4f-dd30-4711-85af-a4edf6b5fd01/Improvements-to-Natural-Gas-Bulletin-Board-Final-determination-for-publication.pdf>

disclose information about material outages, then the market will not be able to efficiently price the impact of outages.

- 3.1.3 If the demand-supply balance in the market tightens and the trade and flow of gas becomes more dynamic, the effects of asymmetric information are likely to become more acute and have longer lasting consequences for all market participants.
- 3.1.4 Therefore, it is unlikely that significant, meaningful improvements to the transparency of gas market will be afforded without the inclusion of large users in the regime. Supply is only one side of the supply-demand equation.

#### *Lack of information on large gas user outages can lead to inefficient gas pricing*

- 3.1.5 The GIC acknowledges that limited information on major gas users' outages could have an impact on the efficient and effective operation of the gas market, but they are unable to gauge the size of this problem given the lack of supporting information.
- 3.1.6 Given the dominance of Methanex as a large user of gas in NZ (approximately 50% of the overall gas consumed in NZ), information around outages of the facility and changes in forecasted consumption are vital information for other gas market participants to be able to fully understand the current balance of gas and ensure they are making informed decisions as to when to buy or sell gas.
- 3.1.7 We acknowledge the claims made by Methanex with respect to both the commercial sensitivity of publishing outage and forecast consumption information, and the potential implications that the publication of this information may have on its international competitiveness. However, we consider these claims are likely exaggerated as:
  - a) in a press release regarding significant unplanned outages last year, Methanex did not appear to consider these as either significant or major referring to them as "...inconvenient. It's a little annoying."<sup>2</sup>
  - b) a recent review by the Australian Energy Market Commission identified that there has been no impact on the international competitiveness of LNG exporters as a result of requirements to publish gas market information, as had been previously claimed.<sup>3</sup>
- 3.1.8 The positive implications of publication of demand-side information on driving more efficient decision making and resource use is also relevant for other large gas users in the market and has been a key driver for the publication of demand side information on the gas bulletin boards in Australia.
- 3.1.9 We support the GIC further exploring these benefits directly with the Australian Energy Market Operator.
- 3.1.10 We also encourage the GIC to further explore the relationship between outages of large users and overall gas prices on emsTradeport.
- 3.1.11 We recognise that a curtailment by a large user such as Methanex will not necessarily result in more gas becoming available to the market. However, knowledge of the curtailment is useful information to participants as it reflects change in the underlying supply/demand fundamentals which is valuable for all participants to understand and factor into decision making.

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<sup>2</sup> Response to verbal questions at Methanex Q1 2019 Earnings Call by John Floren President, Chief Executive Officer & Director, Methanex Corp.

<sup>3</sup> Australian Energy Market Commission, *Stage 2 Final Report: Information Provision – East Coast Wholesale Gas Market and Pipeline Frameworks Review*, 2016, p. 74 available from <https://www.aemc.gov.au/sites/default/files/content/59f71049-a61d-4ed5-9edc-949246ac920d/AEMC-East-Coast-Gas-Review-Information-provision-final-report.PDF>

3.1.12 Prior to any decisions being made around the elements to be included into the SOP, Trustpower would welcome discussing the value of demand side information being published directly with the GIC.

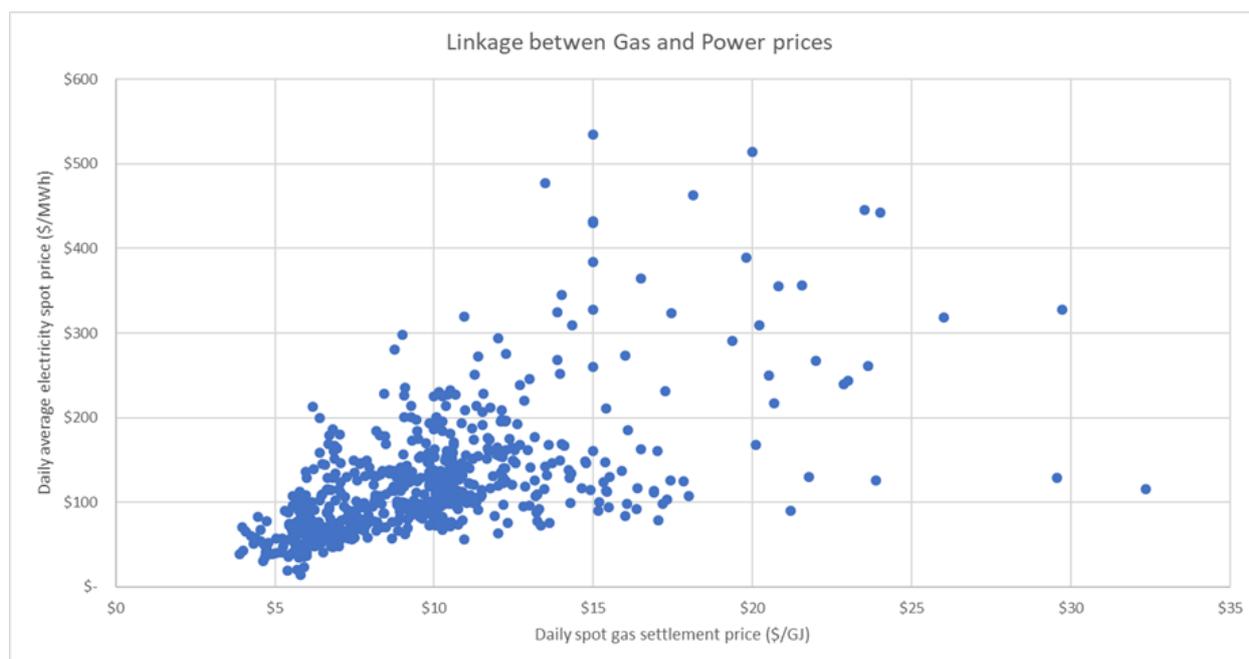
*Impact of parties' behaviour in the gas market on the electricity market*

3.1.13 As an active participant in both the electricity and gas markets in New Zealand, Trustpower has had experiences where large changes in demand for gas have had cascading effects on aspects of both the electricity and gas markets through changing the overall underlying supply/demand fundamentals.

3.1.14 We note that that Methanex is not only the largest consumer of gas in New Zealand, but also the single largest energy consumer with approximately 90PJ of energy consumed each year. In comparison, Tiwai Point Aluminium smelter consumes 20PJ of energy, leaving Methanex as the consumer of 10% of New Zealand's total energy demand.

3.1.15 Therefore, not only do actions from large users such as Methanex have a material impact on gas market prices, but due to the marginal nature of thermal generation in the New Zealand power market, gas prices directly affect electricity wholesale (and therefore retail) prices.

3.1.16 New Zealand generates approximately 12% of our power from gas fired stations. These gas generators are however typically the marginal unit which results in the electricity spot market prices being set with a direct link to the gas market. A simple plot of daily average spot gas prices with daily average electricity spot prices shows this linkage below.



3.1.17 The Authority highlighted the relationship between the gas and electricity markets in November 2019. They explained that “the increasing impact of a tighter gas market appears to be leading to higher longer term wholesale electricity prices”<sup>4</sup> and “planned future disruptions in the first quarter of 2020 are driving prices even higher for quarter one 2020”.<sup>5</sup>

3.1.18 The Authority also noted:

*“[we] think the notified gas field outages are causing forward market participants to price the risk of high spot prices, raising forward contract prices for 2020; this is not a surprising result. In the longer term, the experiences in 2018 seem to have made electricity market participants more*

<sup>4</sup> Electricity Authority, *Electricity spot price increases*, November 2019, pg. 4.

<sup>5</sup> *ibid.* pg 4.

*aware of what can go wrong in the gas supply chain, as well as the importance of gas to price formation, and these are being priced into longer term forward contracts”.*<sup>6</sup>

- 3.1.19 The Electricity Industry Participation Code 2010 (**the Code**) requires participants to disclose, in a timely manner, any information that they hold that they expect would have a material impact on prices in the wholesale market if the information was made publicly available.<sup>7</sup>
- 3.1.20 Trustpower strongly believes that the gas market should have, at the very least, the same requirement. We consider that excluding power stations from the regime may be acceptable given that these outages are disclosed through the electricity market but large users, such as Methanex, should not be excluded. We note this would be consistent with maximising the symmetry and equity of information provisions across the supply chain.

#### 4. Gas storage facilities information

- 4.1.1 The GIC recognises the growing importance of the Ahuroa facility for delivering flexibility across the sector. It identifies several issues associated with limited information transparency and asymmetry of gas storage outage information which affects parts of the gas sector value chain and the electricity sector.
- 4.1.2 Trustpower understands the GIC is considering whether the wholesale gas market would also benefit by further improving gas storage facilities disclosure information relating to:
- a) the quality of stored gas; and
  - b) the amount of available storage capacity.
- 4.1.3 In our view, addressing the various issues relating to information disclosure in the New Zealand sector about requires attention to the entire gas system, including storage.
- 4.1.4 Therefore, information relating to the amount of gas available from storage, and the quality of that gas, needs to be made available to the market to ensure parties have full access to stored gas information, not partial information.
- 4.1.5 We acknowledge Flex Gas already discloses storage volumes to MBIE as part of its Quarterly Retail Sales Survey (QRSS). We understand the GIC is considering discussing with MBIE the possibility of making the information supplied by Flex Gas in its QRSS submission publicly available.
- 4.1.6 In order to have ‘one source of truth’ Trustpower encourages the GIC consider either publishing the data itself with MBIE’s agreement, discussing options with Flex Gas directly or a combination of each approach.
- 4.1.7 We note that publishing information around the quality of stored gas at Ahuroa and amount of available storage would:
- a) be low cost with respect to implementation;
  - b) deliver clear benefits to market;
  - c) had broad support in submissions during previous rounds of consultation on information disclosure.

As a result, we see no reason why this information should not be considered for inclusion in a SOP.

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<sup>6</sup> Ibid. pg 6.

<sup>7</sup> See Section 1.1 Interpretation: *disclosure information*, pg. 20. The Electricity Industry Participation Code 2010, available from <https://www.ea.govt.nz/code-and-compliance/the-code/>

## 5. Mechanisms for information disclosure

- 5.1.1 We understand the GIC will consider the mechanism for disclosure (whether through voluntary measures, industry agreement or regulation) in its next consultation. Trustpower considers that regardless of any voluntary agreements, a regulated solution will ultimately be required.
- 5.1.2 In particular, we are seeking a mechanism which will align with other legislative disclosure obligations, comply with the Commerce Act 1986, facilitate pro-active monitoring by industry regulators and service providers, and provide a low-cost method of enforcement for smaller industry participants.
- 5.1.3 We think an information disclosure regime is a very important initiative for the GIC and look forward to the opportunity to comment on the mechanisms for implementing it in the SOP.
- 5.1.4 We acknowledge that ensuring the GIC has enough powers to regulate in this area will require a change to the Gas Act, which is still being progressed by MBIE.<sup>8</sup> In our view, this continues to be of outmost importance and look forward receiving further updates from MBIE on this matter.
- 5.1.5 For any questions relating to the material in this submission, please contact me directly on 027 549 9330 or Claudia Vianello on 021 681 206.

Regards,



**FIONA WISEMAN**  
**SENIOR ADVISOR STRATEGY AND REGULATION**

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<sup>8</sup> More information on MBIE's workstream available here <https://www.mbie.govt.nz/have-your-say/amending-the-gas-act/>