

11 March 2020

Paul Cruse
Gas Industry Company Ltd
WELLINGTON 6140 (via email to consultations@gasindustry.co.nz)
Dear Paul,

Re: Problem Assessment Cross Submission Questions

1. We attach our submission on the GIC's Problem Assessment Cross Submission Questions related to 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. In our submission "Options for Information Disclosure in the Wholesale Gas Sector"¹ 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.
4. We've considered the independent review of Contract Strategies around the specific issue of Methanex Plant Outage disclosures. This concluded that the commercial harm to Methanex of disclosure outweighs any industry benefits related to the gas wholesale market. Our conclusion is that the focus on impacts on gas wholesale markets is too narrow, given the connection of gas wholesale prices to electricity wholesale prices. We suggest that there can be a compromise between no disclosure (the report's conclusion) and timing of full disclosure that supports efficient market operation.

Yours sincerely



Richard Hale/Len Houwers
Hale & Twomey Ltd/Arete Consulting Ltd
Secretariat for the Major Gas Users Group

¹ 17 April 2019 – para 5a, MGUG submission on Consultation Paper – Options for Information Disclosure in the Wholesale Gas Sector

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Submission prepared by: Major Gas User Group

Question	
Q1:	Contract Price and Volume Information
	<p>We have already made the point in our earlier submission² that various pieces of information regarding contract price and volume already exists in either the public domain, or through paid platforms. We argue that the search costs for that information can be reduced by making what exists more accessible to a less sophisticated market participant to reduce some of the (unnecessary) information asymmetry.</p> <p>Furthermore, given that the supply of gas is looking increasingly constrained by domestic energy policy, the value of forward looking gas price information would seem quite critical for making efficient investment decisions on use of gas and substitutes.</p> <p>While we understand the point about commercial sensitivity and comparing pricing of non-standard products we think that there is still room to land on a facilitated disclosure regime that sits between what currently exists, and full disclosure of every wholesale contract.</p> <p>We repeat our earlier submission here:</p> <p>Various pieces of gas price information is 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 gas price indices that would assist the market.</p>

² Ibid – response to Q7

Q2:	Forecast of major users' gas consumption
	<p>As for contract price and volume information, major user gas consumption is often known or knowable. It is therefore not commercially sensitive, but rather the search costs are unnecessarily high.</p> <p>Gas portfolios are disclosed for some of our generators in their investor updates (e.g. Contact) along with commentary on asset refurbishments or decommissioning. News articles disclose new demand or shifting demand and Methanex regularly discloses to what degree its plant operations are secured under its gas supply arrangements around the world – including New Zealand³.</p> <p>Where information is in the public domain and being provided by the companies themselves, we see no downside, or additional cost in it being made more centrally available. We suggest that the GIC can facilitate a central depository for public information on forecast consumption to assist in improving transparency.</p>
Q3:	Major Gas User Facility Outages
	<p>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.</p> <p>We have read Contract Strategies Ltd independent review report “The Impact of Methanex Plant Outages on the Gas Wholesale Market”. Our comments in relation to the analysis and findings are:</p>

³ October 30, 2019 News Release – third quarter 2019 results notes “New Zealand produced 469,000 tonnes compared with 446,000 tonnes in the second quarter of 2019. We expect to receive higher gas deliveries in the fourth quarter compared to the third quarter of 2019. While there is significant field development work underway in the upstream sector, we do not expect to see the benefit of this next year. Based on our current contracted gas position, we are revising our guidance to approximately 80% operating rates in 2020, or approximately 1.9 million tonnes”

1. It puts a greater weight on the face value of Methanex' arguments than it does on the principle of transparency bias for well-functioning markets. We think that the bias for secrecy is at odds with the intent of a light handed regulatory regime that relies on disclosure as a means of minimising other market regulation.
2. As noted, GSAs, including for Methanex are bespoke bilateral, i.e. not "standard". Methanex' contracts as far as the paper discloses, weren't disclosed to Contract Strategies, so at best the analysis on what Methanex GSAs contain and its impacts on the wholesale gas market relies heavily on speculative assumptions that may not be true.
3. In an increasingly constrained supply market where Methanex competes for diminishing supplies, and is so dominant on the demand side, we don't believe that past observed behaviour is necessarily a good guide to future behaviour.
4. Methanex facility outages are already communicated to various degrees⁴ and as also noted in the report, the commercial impacts of planned outages are already managed internally within Methanex as a normal supply chain activity. We don't see any negative commercial consequences in planned outages being communicated once internal arrangements have been made to cover production outages.
5. Any outside party, including overseas competitors, can track Methanex' daily gas take, and if so inclined can act on what it sees as unusually low or erratic flows. While this in itself won't reveal how long an unplanned outage will last, it still has informational content that is publically accessible to competitors.
6. Contract Strategies brief seems to have been unnecessarily constrained to assessing disclosure impacts on the wholesale gas market rather than also including impacts on related markets. We have already brought up the value of the information on contract resource coordination for major facility outages across the country. Given the points raised by the EA in their submission that "the interaction of gas and electricity disclosure regimes need more thought"⁵ this suggests that the focus on assessing impacts on the gas wholesale market as being too narrow by excluding consideration of wider energy system impacts that flow on to our members as well as other parts of the economy.

While we wouldn't dispute or deny Methanex' private concerns about outage disclosure, we would suggest that the approach on non-disclosure, given our points above, can be more nuanced to deliver a better balance to protect what is truly a private commercial risk, vs the wider system value of public disclosure on Methanex outages.

⁴ 29 January 2020 News Release – *"In December 2019 we took the Waitara Valley plant offline to complete unplanned repairs to be completed during the first quarter of 2020. The plant remains offline today."*

⁵ 9 December 2019 – EA submission response to Q4