

11 March 2020

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Dear Andrew

Information Disclosure: Cross-submissions on Problem Assessment

Thank you for the continued opportunity to submit on the GIC's Statement of Proposal. We have focused our response on question Q1 of the problem assessment paper.

We note recent and material progress in the area of gas outage disclosure. We welcome this progress and we are committed to supporting the GIC and industry in continued efforts on this topic.

We also continue to consider that contract price and volume information to be included in the Statement of Proposal. We do not believe that contract price and volume information has received attention commensurate with its importance during the consultation process to date. This topic is of high relevance to the electricity industry and New Zealand as a whole as we identified in our 17 April 2019 submission on the Options Paper for Information Disclosure.

Q1. Contract disclosure (price and quantity)

The views of the submitters on disclosure of contract price and volume information can be categorised into the following three categories.

Submitters supportive of disclosure in some form

Several submitters, such as Meridian and Mercury, highlight the important linkages between the gas and electricity markets and the utility of contract information to electricity market participants.

We support this view—robust disclosure of gas market information is essential for confidence in the conduct of the spot and forward electricity (hedge) markets. This importance is increasing as the electricity market and regulatory structures evolve.

The electricity spot market is volatile by nature. This volatility is desirable — high spot prices at times of genuine scarcity are an effective and necessary signal to the market for short-term usage and generation decisions, and long-term investment. In the context of this short-term volatility, it is important that participants are able to understand the factors that influence spot prices, based on transparent and easy-to-access information. Participants also need access to tools that enable them to manage risk — the electricity forward (hedge) markets are critical to

providing risk management opportunities for participants and ensuring consumers benefit from a competitive market.

A current focus of the Authority is improving hedge market performance and one aspect is the introduction of enhanced market making requirements. With two main market makers being gas market participants and two who are not, there is significant potential for information asymmetry to adversely affect confidence in electricity futures trading. These concerns were expressed by the Authority in its Undesirable Trading Situation decision paper¹ regarding wholesale market performance during spring 2018. Another consideration is where electricity market disclosure rules place obligations on certain gas participants, this may put those participants at a disadvantage to gas market participants who are not so obligated.

Submitters not supportive of disclosure due to perceived 'low value' of information

One counter argument against disclosure raised by submitters was that disclosed contract information would not be meaningful due to the bespoke nature of gas contracts and difficulty of absorbing what information is already in the public domain.

This is a valid concern and one that should be a focus of investigation. We believe that useful information can be obtained from a well-designed disclosure regime. The electricity industry overcame similar concerns in the development of its hedge disclosure regime over 10 years ago [Part 13 Subpart 5]. In the electricity industry, for disclosure purposes, disclosed contract volumes are aggregated into one of five regions and the contract prices adjusted accordingly. Contracts are listed with flags for typical contract characteristics to provide context. This aggregation serves to mask some commercially sensitive details while still providing others with an idea of activity levels and price. Hedges must be disclosed less than five or 10 business days from the trade, depending on the trade type.

We invite the GIC to study this option in more detail.

Submitters not supportive of disclosure due to commercial disadvantage concerns

A number of participants highlighted concerns that disclosure of contract prices and volumes would lead to loss through commercial disadvantage.

This concern is generally stated without specific quantified analysis to describe the scale of harm expected. We agree that there may be valid reasons for limiting disclosure, however, we also contend that these need to be evaluated against the benefits of disclosure. Further work scaling and quantifying the commercial impacts of disclosure will be important to this discussion. We also recommend that ways of alleviating the commercial disadvantage concern be investigated, such as by summarising, aggregating, or other means of anonymising information. The GIC sponsored review of potential disclosure of major purchaser shutdown conducted by Contract Strategies Ltd. attempts to quantify the potential commercial losses by way of example.

We propose that the development of a contract price and quantity regime be undertaken that addresses the commercial disadvantage concerns raised by submitters and strikes a balance between the benefits of disclosure and cost.

¹ <https://www.ea.govt.nz/code-and-compliance/uts/undesirable-trading-situations-decisions/15-september-2018/>

Authority's overall view

We believe that while outage information should clearly be improved as a priority, we recommend methods for effective disclosure of contract information should be investigated in parallel. As Meridian points out, the GIC disclosure consultation process has been a lengthy one. Sequencing the investigation of the disclosure of contract prices and volumes will further delay information benefits and potentially impede electricity market development.

Our work to investigate improvements to the disclosure of thermal fuel information is now well underway. We appreciate the support of GIC staff in assisting us with this work.

Yours sincerely,

Tim Street
Manager Wholesale Markets, Electricity Authority