

11 March 2020



Paul Cruse
Gas Industry Company
P O Box 10-646
Wellington 6143

By email: info@gasindustry.govt.nz

Dear Paul

Re: Information Disclosure Problem Assessment – Cross-Submission Issues

Flick appreciates the opportunity to make a cross submission on the Gas Industry Company's (GIC) consultation on three specific issues where parties had differing views in their submissions on options for improving information disclosure in the gas industry.

Flick notes the call for these cross-submissions probably arises because of different vested interests arguing their corner in response to these three issues. In finalising the overall approach we suggest, in line with other submitters, that disclosure requirements be based on a principal of 'material impact on price'.

If regulation is necessary to ensure the underlying gas market is operating efficiently then the GIC should not shy away from this. As Mercury Energy submits *"A central tenet of this [efficient market] 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."* Fonterra also support a mandatory rules based outage disclosure regime.

Flick supports Mercury's suggestion *"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"*.

The following extract from Mercury's cross submission clearly articulates why Flick is engaged in this process as well as the value of improving disclosure of gas outage and other information¹.

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.

Flick agrees with others on the need for urgency. For example:

- Haast Energy states that "The requirements need to provide for urgent and immediate disclosures to avoid information asymmetries between market participants, and the types of problems evident from the Pohokura gas field outages"
- Transpower "the development of the disclosure regime for production and storage outages should now be expedited to support confidence in New Zealand's overall energy security".

The gas market categorically impacts the electricity market and information asymmetry is creating winners and losers. Flick supports urgent change to improve information disclosure as much as possible without legislative change – this could be organisations volunteering to disclose more information on a no harm basis.

The following is our comments on the three information elements GIC are seeking further feedback on.

Q1: Contract price and volume information

Flick supports the submissions by Mercury, Meridian and the Electricity Authority on the positive value of disclosing anonymised aggregate price and volume information (and avoiding disclosure of any confidential information). Users of this information would be aware of its limitations.

The benefits of disclosure outlined in these submissions include:

- Mercury:
 - enabling "other market participants to have a reasonable insight into the current wholesale price (and volume) of gas. This price information is vital for energy generators and retailers. Short term prices and volatility can have an impact on energy retail strategies

¹ Retailer is a reference to electricity retailer. Page 2 of submission at <https://gasindustry.co.nz/assets/Consultations/Uploads/Mercury-submission-Information-Disclosure-Problem-Assessment.pdf>

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."
- Meridian:
 - "agree that aggregate price and volume information disclosure would aid price discovery. "
 - "agree with emsTradepoint that better information regarding wholesale gas price and volume would lead to more informed business decisions, promoting efficiency in the gas wholesale market. "
 - "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."
- Electricity Authority:
 - similar [bespoke / confidentiality] "issues are faced in the electricity sector and we require disclosure of contract prices and volumes"
 - the benefits of this [electricity hedge market disclosure] "are regular indicators of forward curve value to support new entrants and potential investors, to encourage increased liquidity and increase efficiency. It also allows the Authority to monitor trading behaviour."
 - "Gas forward market information is important for accurate electricity forward curve valuation, due to the role of gas as a marginal electricity fuel source."
 - "Transparency of gas contract prices would also reduce transaction costs involved in gas trading, and provide a reference point for "parties to write risk management products against."
 - We would not regard commercial sensitivity in itself to be an argument against disclosure."

The Electricity Industry Participation Code requires public disclosure of anonymised price, volume, trade date, effective date and term of bi-lateral contracts. Meridian's contract with the Tiwai aluminium smelter could be compared with Methanex – and contracts relating to supply to Tiwai (both direct and back-to-back agreements) are disclosed.

Q2: Forecasts of major users' gas consumption

Flick notes that publicly listed generators have obligations to investors to publish information that might have a material impact on their earnings and therefore share price. We commend Genesis and Contact for the forecasts of contracted gas price and demand provided in their financial and operational reports. This

aggregate information would be complemented by any new disclosure requirements on contracted price and volumes, discussed above.

An enhanced ability to analyse information about future gas supply and demand balances would be highly valued by electricity sector participants.

Q3: Major gas user facility outages

The primary concern raised in submissions is in respect of the potential impact a sudden influx of additional gas becoming available on the wholesale gas market as a result of a major user plant outage could have on the market operation – and in particular, wholesale gas prices.

Flick supports disclosure of major gas user facility outages and recommends the test of 'material impact on price' should determine when information is required to be disclosed. As Genesis submit *"As a general principle, an information disclosure regime will be most effective when it captures all participants whose behaviour can impact market prices"*. Genesis went on to say:

Major demand sources can materially impact the gas market when they come on or offline. Reductions in demand at major users' facilities impact the price and availability of gas, and this is particularly true in the tight market conditions that currently prevail and are expected to persist. Participants will have greater confidence in the market, and be able to make better decisions, if they are notified of when the supply/demand balance is likely to materially change due to outages from major users.

Vector submitted that *"information on planned and unplanned outages that are likely to have a material impact on gas prices on the supply side and the demand side should be published"*.

We urge the GIC to prioritise this work on disclosing gas market information. In doing this we agree with Meridian that the GIC should be encouraged *"to evaluate both the costs and benefits"* of disclosing various types of information. *"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."*

We welcome the opportunity to discuss this submission with you in more detail.

Yours



Steve O'Connor
Chief Executive