



29 March 2019

Andrew Knight
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By email: andrew.knight@gasindustry.co.nz

Dear Andrew

Gas Market Information Disclosure

Meridian is pleased to see the Gas Industry Company (GIC) is considering improvements to information disclosure in the gas market. We are however concerned that the current GIC timeframe for actually making those improvements is too slow.

Meridian will in due course submit a detailed response on the GIC's *'Options for Information Disclosure in the Wholesale Gas Sector'* consultation paper. However, given the importance of improving gas information disclosure we wanted to get this letter to you now to suggest some immediate steps the GIC could take to make improvements, and urge you to take those steps. The goal for the GIC and / or policy makers should be to align disclosure requirements across the electricity and gas sectors as soon as possible, with the relevant test or rule being the same – i.e. that there should be disclosure of information that a participant expects or ought reasonably to expect will have a material impact on prices. Achieving this goal will improve confidence in the gas market and in the electricity market to the benefit of all suppliers and purchasers of energy. Conversely, delay in achieving this goal will over time result in potential damage to the credibility of the GIC and to gas and electricity markets more generally.

The current state of production and supply in the gas market and the prices paid for gas are, as you know, a key input to electricity prices in the spot market and in the futures market. Lack of transparency in the gas market and the resulting uncertainty this drives, is in our view a major cause of the ongoing price volatility and widened bid ask spreads seen in the electricity futures market since late last year.

We are aware that the Minister, the Electricity Price Review (EPR) Expert Advisory Panel and the Electricity Authority have also expressed concerns. The Minister's letter of 25 July 2018 referred to "information disclosure requirements for gas industry participants" being "insufficient." The Price Review Panel has referenced submissions about the problems with limited availability of information about gas supplies, and the Electricity Authority's recent UTS report, although finding no UTS, also concluded that inadequacies in gas supply information warranted further attention.

One solution proposed by the EPR Panel is the establishment of a single electricity and gas regulator that could "develop and enforce regulations for both industries in a more consistent and coherent way, which would reduce uncertainty". In response to this we said in our EPR submission that:

Meridian is neutral provided that immediate steps are taken to address the current information asymmetry in relation to gas market information disclosure. We are concerned this is having an ongoing detrimental effect to the operation of the electricity market and support the Authority and Gas Industry Company's (GIC's) efforts to ensure greater transparency. If those efforts are unsuccessful or fail to proceed quickly enough the issue of a joint regulator would need to be looked at. We note that the current GIC consultation seems unlikely to produce any improvements in disclosure prior to 2020. Meridian believes this is not quick enough.

A related option being considered by the EPR Panel is the introduction of mandatory market-making in the electricity futures market. Currently four parties provide market-making services on a voluntary basis. Meridian does not favour the proposed mandatory market-marking as we believe other options, based on evolution of the current arrangements, are likely to be more efficient and deliver a better long-term solution, with lower costs to consumers. We submitted to the EPR that it is imperative that any steps to improve market-making need to be accompanied by strong steps to improve gas market disclosure. If the underlying issue or problem is that gas market uncertainties are driving widened spreads in the electricity futures market, then it doesn't seem reasonable for policy makers to simply decree that electricity market-makers must hold tight spreads, and potentially incur significant losses to gas market information insiders, without also taking steps to ensure those insiders share the information they have.

The gas market information that we would like to see starting to be publicly disclosed very soon would be anything that a participant expects or ought reasonably to expect will have a material

impact on prices in the gas market or the electricity market. In terms of the potential information issues outlined in the GIC's consultation paper this would include all of the categories of information identified:

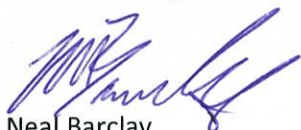
- planned and unplanned outage information (timing and scale) related to production and major gas user facilities;
- emsTradepoint volume and price information (such information has sat behind a paywall since April 2018);
- wholesale prices and traded volumes (covering gas traded under bilateral contracts, brokered arrangements and the emsTradepoint market)
- medium term (one year) consumption forecasts; and
- forecast production information over the short term (one week) and medium term (one year) and if possible longer – we note the GIC's paper references the potential importance of this information in relation to assessing electricity security of supply.

We expect that voluntary agreement to disclose at least some of this information would not be too difficult to negotiate with gas market participants, with the relevant information then disclosed on the GIC website. We suggest the GIC should explore urgently with gas market participants what can be achieved and what they believe they could commit to.

At the same time Meridian will engage with both the Electricity Authority and with MBIE to see what steps could be taken to expedite a regulated solution. I am aware that the GIC's response to the Minister's letter of 25 July 2018 indicated that amendments to the Gas Act might be necessary to enable the making of regulations mandating disclosure. If that is correct then potentially the quickest way forward might be to write the necessary rules directly into the Gas Act. Separately the Electricity Authority will have jurisdiction over a number of current gas market participants by virtue of them also being participants in the electricity market. Amendments to the Electricity Industry Participation Code may also assist in improving gas market disclosures.

I would like to discuss these issues with you in person and will ask my team to contact you to set up an appropriate time.

Yours sincerely



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Chief Executive

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cc James Stevenson-Wallace, Chief Executive, Electricity Authority

Miriam Dean, CNZM QC, Chair, Electricity Price Review Expert Advisory Panel

Phillippa Fox, General Manager Energy and Resource Markets, MBIE