GREYMOUTH GAS

3 March 2021

Andrew Knight
Chief Executive Officer
Gas Industry Company Limited

Dear Andrew,

Re: Draft Statement of Proposal for Production and Storage Facility Outage Information

Please find attached Greymouth Gas New Zealand Limited's response to the draft SOP following the format in the template.

Greymouth considers that the GIC has not carried out a proper assessment under section 43N of the Gas Act. It should do so, ensuring it accords proper consideration to the success of the Outage Code and the industry's willingness and capability to make any changes considered necessary to meet the regulatory objective (which expressly includes voluntary arrangements).

It defies logic how the GIC can conclude that 73(+) successful notifications is not satisfactory. There is nothing to suggest any reporting failure, in fact quite the opposite with OMV disclosing the forecast 2021 field production when they were not required to as is stated in the document.

Regulating production and storage facility outage information will:

- Not result in better data getting to the market.
- Not deliver or redistribute more gas.
- Waste limited resources on a minor item that has no or very limited value-add.
- Undermine the successful co-regulatory model which encourages GIC to work with us.
- Jeopardise the GIC's role as an independent trusted advisor.

This is not a time to play politics with a minor issue that will jeopardise resource and motivation to participate in and try to solve the real issue of the decade.

Yours sincerely

[redacted]

Chris Boxall
Commercial Manager

Greymouth Gas New Zealand Limited
Level 9, 151 Queen Street / PO Box 1394, Auckland 1140
New Zealand
Tel: (+649) 320 0422 Fax: (+649) 373 4228

Appendix C - Questions

Draft Statement of Proposal: Gas Production and Storage Facility Outage Information

Submission prepared by: Greymouth Gas New Zealand Limited, Chris Boxall

All comments are to be read subject to the letter submitted contemporaneously with the comments.

Question		Comment
Q1	Do you agree with the regulatory definition? Please provide reasons supporting your views.	No. That objective has already been achieved with the Outage Code and there is no need for regulation.
Q2	Do you agree with the information disclosure options for gas production and storage facility outage information that have been identified? Please provide reasons for your views.	No. Only two options have been identified: the Outage Code (as currently drafted) and enforcement/regulation. No consideration has been given to the possibility of addressing the issues identified with the Code before resorting to regulation. Given the amount of work put into the Code and the demonstrated willingness of industry participants to engage meaningfully in its development, this should have been included as an option. That it was not risks undermining the co-regulatory model currently in place. Further, the cost-benefit analysis is useless, i.e.: - It is biased, with no gas producer being consulted. - Only the downstream impacts of gas outage information have been focused on, meaning the upstream impacts have not been considered as is required to properly give effect to r43N(1)(b)(i) of the Gas Act. - It fails to analyse the possibility of amending the Outage Code as an option. - The points of vulnerability are mis-characterised:

		○ Once entered into (which major producers have), it is not voluntary, but compulsory, to comply. ○ There are non-compliance consequences (reputation / group accountability / threat of regulation), not none. ○ The scheme review system hasn't been tested yet so assuming there is limited ability to access underlying data is nothing but an assumption – in fact production information is public on the BGIX and Oatis. - Unsurprisingly as written by downstream only the benefits are massively over-stated vs. the Outage Code, e.g.: ○ There will be no change to co-ordination of outages as the same data set will be published allowing parties to make decisions based off the same information. ○ Price volatility will not change because both the Code and the regulated option get the same information published. Risk premiums are likely to increase depending on the compliance penalties. ○ The quality of the information will not change – simply regulating what currently happens won't change the information – industry now gets good information. - Treasury's advice has been mis-interpreted and the wrong counterfactual has been analysed. I.e. if the counter-factual is the situation that would exist if the intervention (regulation) does not go ahead, then that is the realistic status quo of the Code which has delivered impressive results since its go-live. This is most disappointing because the cost-benefit analysis effectively failed to have any regard for the outage code which is operating well. Comparing a new policy option to a status quo which is assumed to fail (when it has not) will always create a biased cost-benefit analysis towards action. This is not good practice, not good governance, nor is it common sense. If there are risks with the status quo then consider those, but a worst-case hypothetical situation should not be assumed outright when the status quo has been demonstrated to have been working and working well.
Q3	Are there other options that you think should be considered in this process?	As noted above, GIC has missed the consideration of an amended Outage Code – i.e. would further changes to that code take that policy option above the bar required to obviate regulation? Without debating the detail, that option simply has

		not been considered. GIC is required under r43N(1)(a) to consider all reasonably practicable options.
Q4	Do you agree with our assessment of the Upstream Gas Outage Information Disclosure Code 2020 as an option for achieving the regulatory objective? Please provide supporting arguments for your views.	The dismissal of a code that has been working well and has been in place for less than a year is not satisfactory. Many of the issues identified are perceived issues that have not occurred in practice. In the time it has been in practice, the Outage Code has demonstrably met the regulatory objective – i.e. >73 disclosures so far, including exemplary disclosures in relation to Pohokura. One of the main grounds for dismissing the Outage Code – and for giving it a zero weighting in the cost-benefit analysis – was its voluntary nature. Section 43N explicitly recognises voluntary compliance as one of the ways in which the regulatory objective may be satisfactorily met other than by regulation. In assessing its suitability as a satisfactory option, consideration and weight should have been given to: (a) The level of compliance so far in the course of the code's operation; (b) The validity of reputational risk as an incentive for compliance in voluntary regimes; (c) Whether additional incentives for compliance could be added to the Outage Code; and (d) Whether the code was capable of being amended in respect of other identified issues so as to make it a satisfactory option for the purposes of s 43N.
Q5	Do you agree with the design of this regulatory option? Are there parts of design that require amendment? Please provide supporting information in your response.	No: • Introduction: if the object is to publish information when certain changes in gas occur, which affect physical gas or wholesale prices, then the regime should be agnostic about what the source (i.e. supply or demand side) of the change is. • Coverage: 20 TJ/d is appropriate, however this needs to be a current usage threshold. The mere fact that a facility may have met that threshold at a time in the past should not require it to participate in the regime if that threshold is not being met now. • Outage Definitions: this needs further assessment, as if a benchmark is set on a peak production day then normal

		changes in production could trigger a disclosure requirement when there isn't actually an outage. • Timing of disclosures: the code has a soft 12-hour guideline which should be adopted to allow for, for example, overnight outages. • Information required for monitoring: Production forecasts provided to GIC should be those provided annually to MBIE. Information that can be automated, e.g. receipt point DDRs on Oatis, should be provided by Oatis or First Gas as TSO. • Confirmation of quality: this is already to a good industry practice / RPO level, so it's unclear why the GIC considers this is required. Directors do not need more minor operational sign-offs – they need to be navigating the complex and changing business and national / global landscape. • Compliance and enforcement arrangements: this will inevitably put upwards pressure on gas prices if producers anticipate additional risk. GIC should also revisit the compliance SOP as a separate document if / after it proceeds with the market disclosure initiative – in particular, the word "framework" is wrong because it would appear to capture GIC's historical and voluntary information request process and not just any new policy options.
Q6	Do you agree with our conclusion that the most practicable means for implementing information disclosure arrangements for gas production and storage facility outage information is to implement them within a framework of regulations (and/or rules) under the Gas Act? Please provide supporting arguments in your response.	No, the most practicable option would be to continue with the framework already in place (i.e. the Outage Code).