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Support for strengthening Gas Information Disclosure requirements

Haast Energy Trading (Haast) supports introduction of broader, disclosure requirements for gas outages (planned or otherwise), and other information, that may impact the wholesale electricity market. 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.

We also support MBIE's proposal to introduce additional regulation/rule making powers in the Gas Act to enable broader disclosure of information from the gas industry.[1]

Electricity Price Review supports tougher wholesale market disclosure requirements

The Expert Advisory Panel undertaking the Electricity Price Review supports tougher wholesale disclosure requirements.[2] The Panel detailed the issues which arose due to disruption to gas supplies from outages at the Pohokura field and that "no generator-retailer shared any specific information that gas fuel shortages were coming".[3]

The Panel noted it "agree[d] with submissions supporting the extension of disclosure rules to include information on the availability of generation fuel" and "Some parties subject to the disclosure regime appear to support its strengthening".[4] This included Mercury's submitting it "is supportive of the [disclosure] regime being further strengthened", and similarly from Genesis that it "would also like generation fuel availability to be included in these disclosures".[5] In our joint submission with Electric Kiwi we noted support for toughening rules on disclosing wholesale market information:[6]

> "The information disclosure issues highlighted in the recent UTS decision expose the failure of the current regime starkly. We believe the behaviour of Genesis detailed in section 9 of the UTS decision is deeply undesirable. The trader aggressively purchased contracts while in possession of detailed non-public information on the Pohokura gas outage …"

The GIC consultation provides clear details of the problems with current lack of disclosure requirements for gas outages

We have reviewed the GIC's consultation on gas information disclosure, including submissions, and consider it provides clear details of the problems with the current lack of disclosures.

[1] MBIE, Discussion Document, Options for amending the Gas Act 1992, May 2019, question 9.
[2] Expert Advisory Panel, Electricity Price Review, OPTIONS PAPER for discussion, 18 February 2019, proposed recommendation D1.
[3] Expert Advisory Panel, Electricity Price Review, OPTIONS PAPER for discussion, 18 February 2019, page 18.
[4] Expert Advisory Panel, Electricity Price Review, OPTIONS PAPER for discussion, 18 February 2019, page 19.
[5] Expert Advisory Panel, Electricity Price Review, OPTIONS PAPER for discussion, 18 February 2019, footnote 107.
[6] Haast Energy and Electric Kiwi, Electricity Price Review – Options Paper, 22 March 2019.

While there was some criticism from Greymouth Gas, OMV, PEPANZ and Todd that the GIC had not provided an adequate problem definition, any limitations with the GIC problem definition were more than adequately addressed by other submitters. Mercury's submission particularly stood out for providing a robust articulation of the problem definition.

Greymouth Gas' criticisms were qualified by the observation that "All markets are interrelated on either a short or long run basis, and it is clear that there are additional disclosure problems across the supply chain".[7] OMV also conceded "… there is an identified problem in relation to outage information (planned and unplanned)".[8]

We agree with First Gas that there are information gaps in the gas market relating to planned and unplanned outages at major gas production and user facilities: "These facilities have significant physical and financial impacts on the gas industry. Having consistent, timely information on the ability to produce or consume gas at major facilities would help to build confidence in a well-functioning and transparent gas market".[9]

The Electricity Authority submitted "The current low level of disclosure in the gas market is inhibiting the efficient operation of the electricity market" and that "feedback to us over the last six months has stated that uncertainty and uneven access to gas production information contributed to high electricity prices, has raised questions about insider trading in the electricity forward contract (hedge) market and may have caused breaches of the Code".[10] We agree.

The incumbent electricity retailers all commented on the interdependency between information disclosure in the wholesale gas sector and the efficient operation of the electricity market. Mercury, for example, "considers information disclosure in the wholesale gas sector is a problem that needs to be addressed and is highly likely to be net beneficial based on mitigating the impacts to the wholesale electricity market alone".[11] We agree.

Trustpower cited the unplanned gas production facility outage which occurred in late 2018 as an example of "the intertwined nature of the gas and electricity markets. In particular, the fuel supply restrictions that occurred in the gas market had significant implications for electricity market customers, with smaller retailers lodging a claim with the Electricity Authority that an Undesirable Trading Situation (UTS) occurred, and triggering the first retailer default in the New Zealand Electricity Market".[12] We agree.

NZ Steel noted "… we had just completed a major plant shutdown that could have been scheduled to coincide with Pohokura outage had information been available in a timely manner" which would have helped avoid "several million dollars in increased costs supply to the NZ construction industry".[13] We agree. This is a good example of the type of inefficient impact information asymmetries can have on New Zealand major users.

Mercury detailed how current arrangements result in information asymmetries and can disadvantage market participants with significant resources like Mercury and the System Operator, and that this can cause greater problems for independent retailers, and expressed concern that the "… information asymmetry can have a material impact on other market participants risk positions and confidence in both in the spot and futures markets. This is particularly the case in times of tight fuel supply, for example when the hydro-lake levels and inflows are low". We agree.

[7] https://www.gasindustry.co.nz/assets/Consultations/Uploads/Submission-Greymouth.pdf
[8] https://www.gasindustry.co.nz/assets/Consultations/Uploads/Submission-Greymouth.pdf
[9] https://www.gasindustry.co.nz/assets/Consultations/Uploads/Submission-First-Gas.pdf
[10] https://www.gasindustry.co.nz/assets/Consultations/Uploads/Electricity-Authority-response-to-GIC-consultation-on-information-disclosure.pdf
[11] https://www.gasindustry.co.nz/assets/Consultations/Uploads/GIC-consulation-on-gas-wholesale-market-info-disclosure.pdf
[12] https://www.gasindustry.co.nz/assets/Consultations/Uploads/Trustpower-submission-on-Options-for-Information-Disclosure..pdf
[13] https://www.gasindustry.co.nz/assets/Consultations/Uploads/NZ-Steel-Submission-on-Information-Disclosure-Apr2019.pdf

PEPANZ conceded it "is less than ideal" different consumers were receiving different information on the duration of the Pohokura outages.[14] PEPANZ referenced the Electricity Authority's UTS investigation's finding that the information asymmetry was "small and often non-material". Haast considers the Authority's conclusion should be attributed to shortcomings of its UTS decision rather than the information asymmetry being immaterial.

Disclosure of outages (planned and unplanned) is essential

We note there is widespread support for disclosure of planned and unplanned gas outages, including from First Gas, Genesis, MEUG, Mercury, Meridian, MGUG, OMV, Trustpower and Vector. We support these submissions.

Clear support for introduction of mandatory disclosure requirements

The GIC consultation shows there is strong support for mandatory disclosure requirements. Out of the 20 submissions the GIC received, only Greymouth Gas, OMV, PEPANZ, and Todd supported voluntary arrangements. Mandatory arrangements were explicitly supported by major users, electricity and gas networks and retailers, and the electricity regulator etc: Contact, the Electricity Authority, emsTradepoint, Energy Link, First Gas, Fonterra, Mercury, Trustpower, Transpower, and Vector. While Haast did not submit in response to the original consultation paper, we also support mandatory disclosure requirements.

The Electricity Authority considers regulated gas disclosures are needed to deliver greater certainty to firms. The Electricity Authority doubts whether firms would comply with voluntary disclosure requirements: "Our experience is parties won't disclose when they don't have the incentive to do so, or their incentives are to withhold information. This is why we recommend a regulated approached". Mercury similarly "… consider regulation may be necessary to ensure that the regime applies equally to all parties and the GIC has the power to monitor compliance and if necessary, ensure the regime is enforced". We agree with these views.

We also share Mercury's concern that "In comparison to the electricity market, which has an information disclosure regime, the gas sector has no formal systematic arrangement for the timely disclosure of information".

Support for a single publication platform

There were a number of submitters that supported a single platform for disclosure, including Contact, Electricity Authority, emsTradepoint, EnergyLink, FirstGas, Fonterra, Genesis, Meridian, Transpower, Trustpower and Vector. FirstGas, for example, commented that "We support the disclosure of outage information from a single source. It is important that the information is both readily available and accurate, and a single point enables the efficient updating of information. We recommend that the GIC should hold responsibility for monitoring the provision and accuracy of information supplied." Haast supports these views and agrees there should be a single depository for disclosed material.

Options for a single depository include the GIC's website (supported by Genesis and Meridian) and the existing Planned Outage Co-ordination Process (POCP) platform (supported by the Electricity Authority, emsTradepoint, EnergyLink). The Electricity Authority, for example, commented: "A common gas and electricity option seems to have potential merit and we would be support of an approach that makes use of

[14] https://www.gasindustry.co.nz/assets/Consultations/Uploads/Submission-PEPANZ.pdf

POCP". Haast supports further consideration of the most appropriate platform and what, if any, improvements would be needed to existing platforms.

Need for the Electricity Authority and GIC to co-ordinate their disclosure requirements

We note PEPANZ raised concern about potential duplication of disclosure requirements of the Electricity Authority and GIC: "If the GIC considers that gas positions are useful to understand (in terms of how that flows onto electricity pricing), the GIC should look to rely on the EA regime before duplicating requirements".

It is notable the Electricity Authority wants the GIC to adopt new mandatory disclsoure requirements. According to the Electricity Authority "It is evident that there is a lack of public information about gas supply, when compared to the level of information available on hydro storage and snow pack."[15]

PEPANZ concerns should be addressed through co-ordination between the Electricity Authority and the GIC and do not impact on the efficacy of introducing the proposed new disclsoure disclosure requirements.

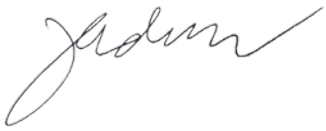
[15] Electricity Authority, Wholesale market conditions, 5 November 2018.

Concluding remarks

We appreciate the GIC and MBIE's proactive engagement with stakeholders on improvements to elements of gas disclosure related to the wholesale electricity market.

It is clear there is wide-spread support for broader, mandatory, disclosure requirements. We note First Gas and Trustpower proposed voluntary disclosure arrangements as a pragmatic interim solution, or temporary "stop gap", pending changes to the Gas Act. We would support such arrangements, subject to timing of Gas Act amendments.

Yours sincerely,



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