

GAS INFORMATION DISCLOSURE WORKSHOP

DATE:

27 March 2019

AUTHOR:

Gas Industry Co





- Go through the Options paper
- Opportunity for parties to provide their perspectives on issues and ask questions
- Not a submissions process but a chance to understand each other positions
- Ideally today leads to better submissions.

Topics

- Motivation for workstream
- Drivers of information in the market
- Is there a problem?
- Approaches to information disclosure
- Coverage of an information disclosure regime
- Information disclosure rule options
- Publication channel options
- Costs and benefits
- Timetable

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Analysis of issues

Topics

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**Information
disclosure options**

Topics

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Rule options

What's the motivation for this workstream?

- Stakeholder perspectives during GTAC process

Issues relating to the transparency of outage information that may impact the wholesale market for gas is an issue that requires broader consideration than the GTAC process. This matter should be progressed by a separate work stream led by Gas Industry Co. The test for disclosure of outage information under the GTAC should be whether it affects the efficient operation of pipeline services. (GTAC 23 Aug Workshop Minutes)

Minister's request

"I am concerned, in light of the recent outage at Pohokura, the [information disclosure] requirements may be insufficient and that if information is not required to be disclosed in a timely manner it may have a material impact on the wider market for gas"

- Submissions on GIC Work Programme and Levy

"Information asymmetry in the gas market can have significant implications for outcomes... information transparency it [sic] vital to the overall effective operation of both the electricity and gas markets."

"priority should be given to the information disclosure workstream"

"a work stream that considers options to improve access to information and transparency of upstream activities, including planned and unplanned outages, is a welcome development."

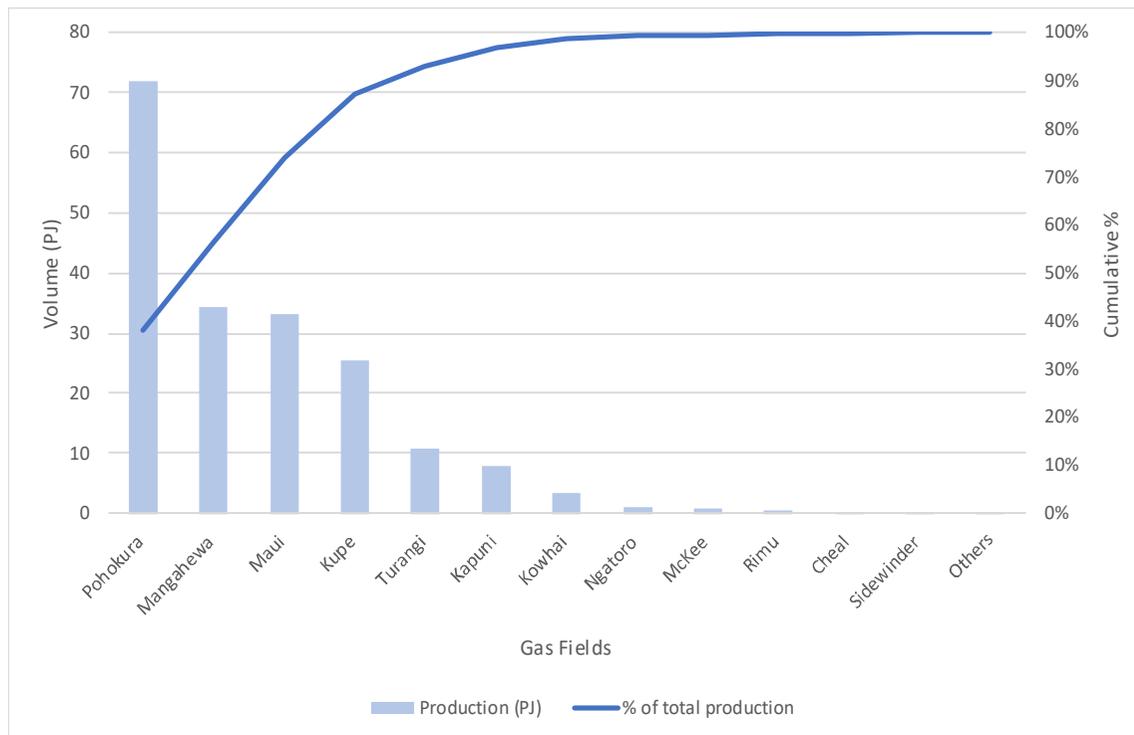
What drives the level of information in the market?

- The level of information transparency in the wholesale market is driven by the structure and arrangements in the market.
- Most gas is supplied under longer-term, bilateral gas supply agreements.
 - Reflects the capital-intensive nature of the upstream sector, and
 - Major users' requirements for certainty
- Bilateral contracts are not unique to NZ e.g. in East Coast, Australia most gas is sold under bilateral arrangements.
- Upstream information is restricted largely to contract counterparties. Again, similar to other markets - in the East Coast market: gas sold under these contracts has "...invariably been treated as confidential by the parties" (AEMC).
- JV arrangements between upstream parties may limit the disclosure of information publicly

Structure of the gas market (1)

Upstream

Concentrated ownership of producing fields.

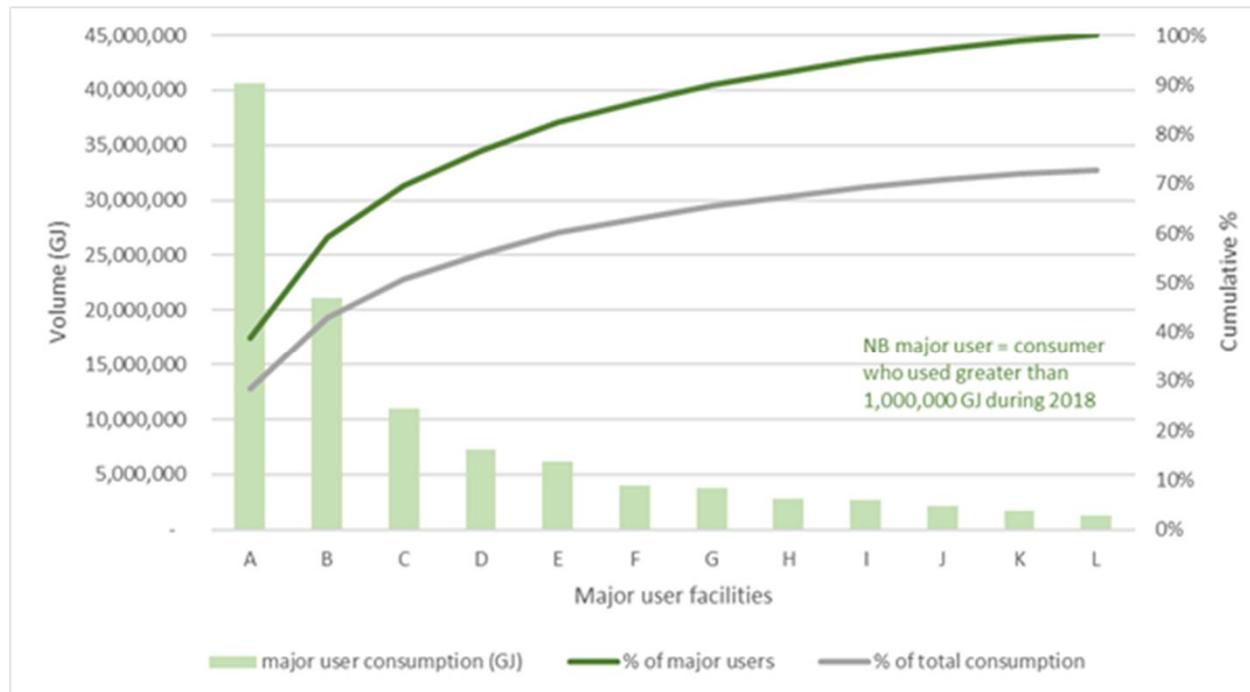


Structure of the gas market (2)

Demand-side

Also concentrated.

3 facilities used about 50 percent of gas produced in 2018.



Implications (1)

Information	Comment
<p>Planned outage information: Producers</p> <ul style="list-style-type: none"> • Some information is voluntarily made public • Producers provide information to GSA counterparties • Some timeframe information available at Jam Solutions. <p>Planned outage information: Major users</p> <ul style="list-style-type: none"> • Timeframe information for some users is available on Jam Solutions. 	<ul style="list-style-type: none"> • Generally, information is not publicly disclosed by either producers or major gas users. • Planned outage information is publicly disclosed in other markets we've reviewed. • Limited information may affect the efficient operation of the market and lead to fairness issues.
<p>Unplanned outage information: Producers</p> <ul style="list-style-type: none"> • Producers provide information to GSA counterparties • Sometimes (limited) public disclosure. <p>Unplanned outage information: Major users</p> <ul style="list-style-type: none"> • Major users do not publicly disclose this information. 	<ul style="list-style-type: none"> • Generally, information is not publicly disclosed by either producers or major gas users. • Information is (or will be) publicly disclosed in other markets we've reviewed. • Limited information may affect the efficient operation of the market and lead to fairness issues.

Implications (2)

Information	Comment
<p>Reserves information Petroleum field reserves (2P and 2C) and production information are disclosed annually under the CMA</p>	<ul style="list-style-type: none"> • Tightening supply conditions and reduced deliverability flexibility increase the importance of upstream information.
<p>Permit information Prospecting, exploration and mining information is disclosed under the CMA – available with a 5 year lag</p>	<ul style="list-style-type: none"> • Tightening supply conditions increase the importance of information regarding future reserves.
<p>Forecast production information No forecast production information is provided.</p>	<ul style="list-style-type: none"> • A lack of information may limit parties' understanding of gas availability and liquidity. • Production information is important for the electricity system operator's understanding of electricity security of supply.
<p>Wholesale prices & aggregate traded volume Price and volume information for gas traded under bilateral contracts and brokered arrangements is not available to the market.</p>	<ul style="list-style-type: none"> • An understanding of market fundamentals, including quantity and price, is important for market participants to make good decisions.

Relevance to Gas Act and GPS Objectives

Government Policy Objective	Comment
The facilitation and promotion of the ongoing supply of gas... by providing access to... competitive market arrangements	<ul style="list-style-type: none"> • Some parties may be making decisions based on incomplete, inaccurate and dated information. • Limited and uneven information availability may impact on the efficient operation of the wholesale gas market from time-to-time.
Barriers to competition in the gas industry are minimised	<ul style="list-style-type: none"> • An inability for all parties to have access to a common pool of information may affect competition in the market.
Incentives for investment in gas processing facilities, transmission and distribution are maintained or enhanced	<ul style="list-style-type: none"> • Upstream investment is unlikely to be affected by limited information because of GSAs • A lack of information transparency may affect other parties' ability to make investment decisions.
Delivered gas costs and prices are subject to sustained downward pressure	<ul style="list-style-type: none"> • Limited information transparency and asymmetry may lead to delivered gas costs and prices being higher than they otherwise would be.
Risks relating to security of supply... are properly and efficiently managed by all parties	<ul style="list-style-type: none"> • Effective and efficient risk mitigation (including security of supply risks) requires all parties to have complete, accurate and timely access to market information.

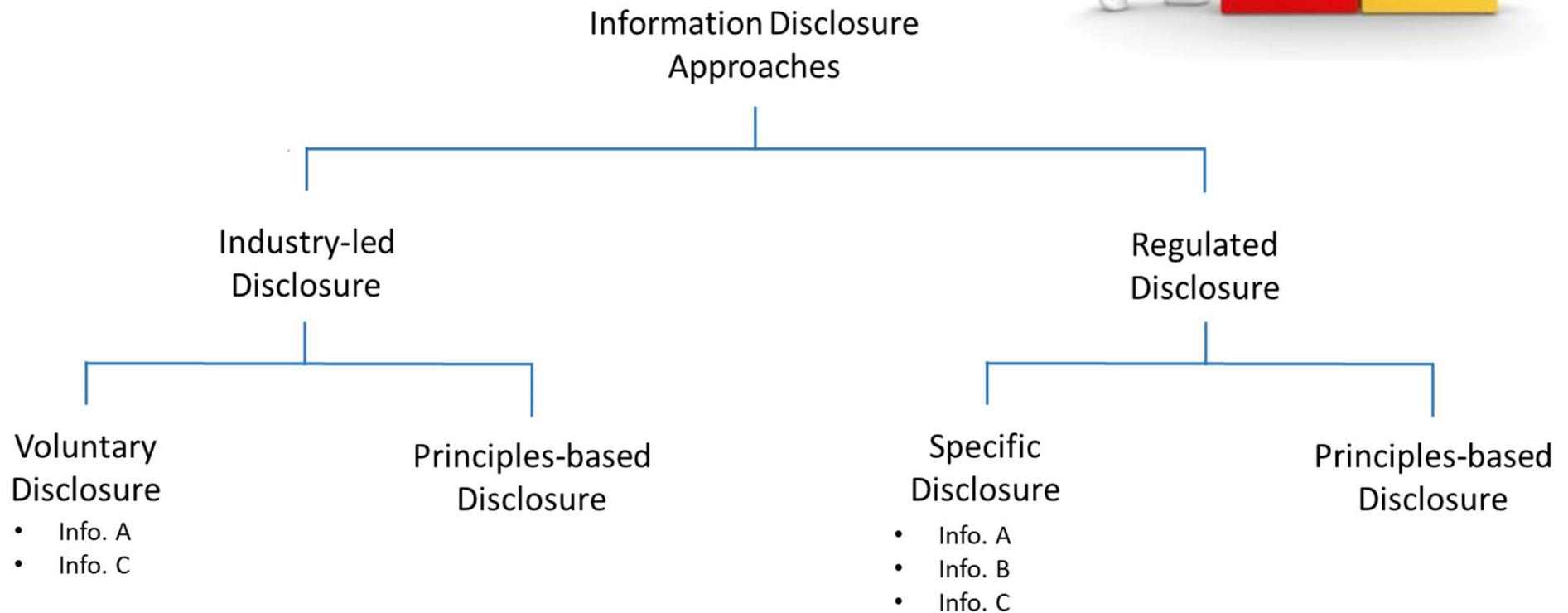
Is there a problem? Break-out group questions.



- What do you consider to be the information gaps in the gas market (if any)?
- What are the impacts of any identified gaps?
- What are the issues and costs associated with disclosing information to address identified gaps (if any)?

Update on Gas Act changes

Approaches to information disclosure

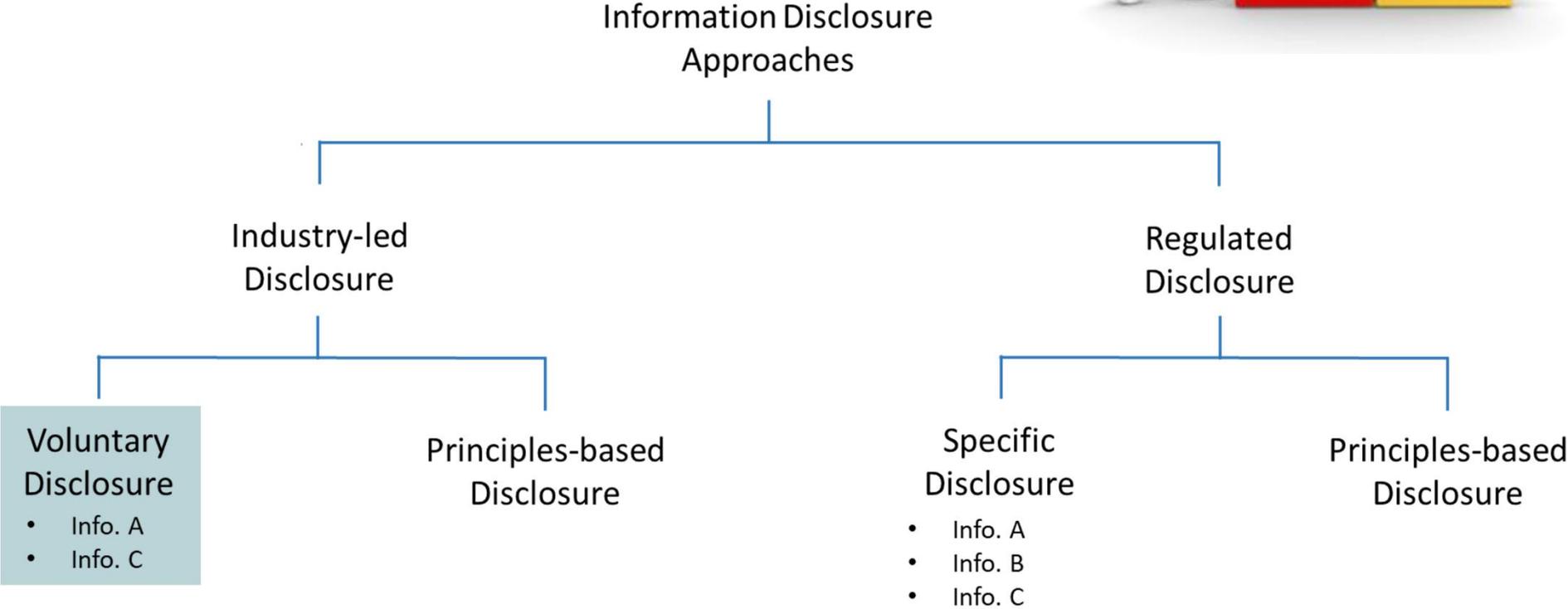


Implementation: industry-led & regulatory options

- An information disclosure regime could be implemented either as an industry arrangement or as a regulated regime.
- The Gas Act requires GIC to ensure that an information disclosure regime is unlikely to be satisfactorily achieved by means other than regulation
- Will consider regulation where industry-led approach is unlikely to achieve the objective satisfactorily.
- Interested in parties' perspectives on implementation of a framework as an industry arrangement.

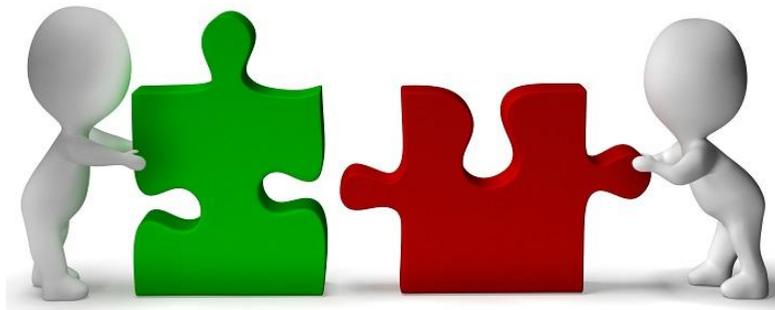


Approaches to information disclosure



Voluntary disclosure: description

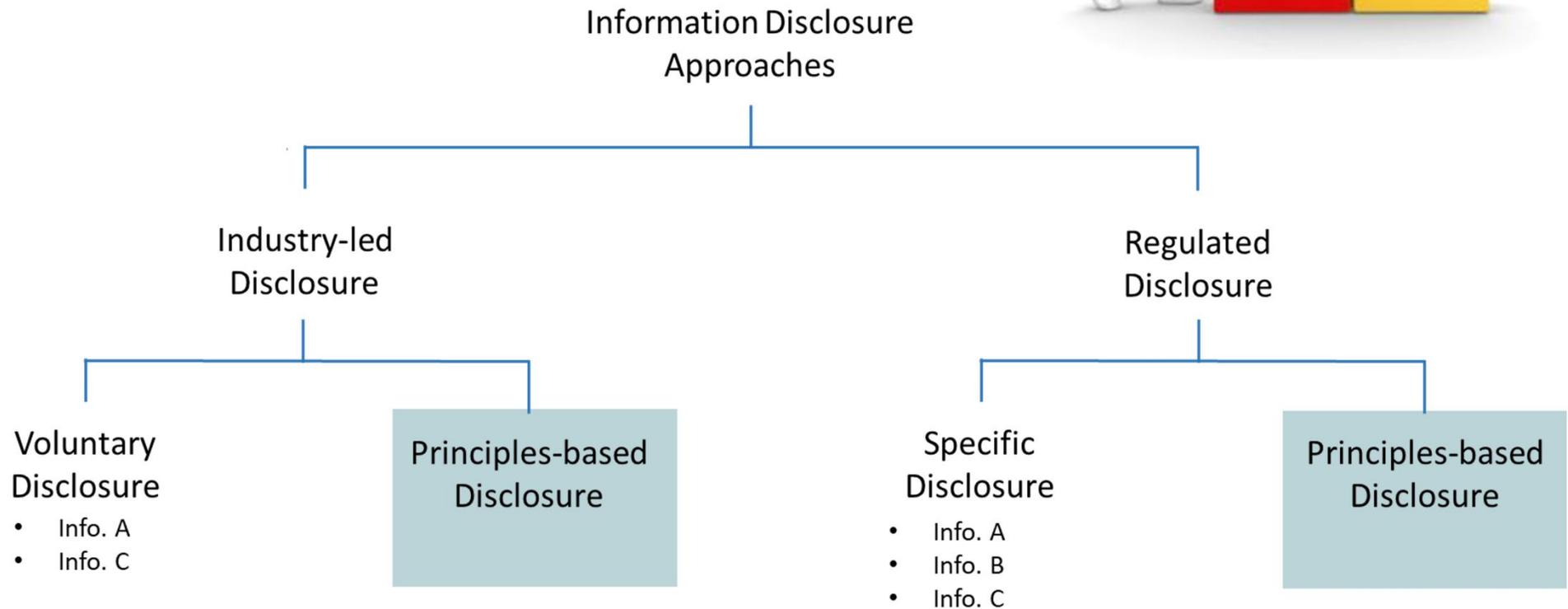
- An industry-led arrangement; regulation not required
- Disclosure of information made on a voluntary basis e.g. under a multi-party agreement or information protocol.
- Framework would set out the various 'rules' around disclosure, including the types and particular elements of information.



Voluntary disclosure: pros and cons

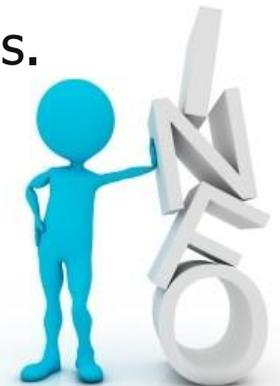
Advantages	Disadvantages
<ul style="list-style-type: none">• Consistent with an industry-led approach to governance of the sector.• Likely to be a relatively low-cost solution.• Relatively unobtrusive, light-handed option.• Faster to implement once parties have agreed to a disclosure framework.	<ul style="list-style-type: none">• Some parties have said they do not support information disclosure; they may not participate in information sharing.• Some JV arrangements between upstream parties may preclude voluntary disclosure.• Incentives for some parties to 'hold-out'; partial coverage would undermine a voluntary disclosure regime and be unlikely to meet the regulatory objective.• It may be difficult to get agreement to any form of 'meaningful' disclosure framework. It could take a long time to get a framework in place.• Information disclosure could be uneven, creating uncertainty in the market.• Arrangements could break down over time.• No regulatory incentives to encourage appropriate behaviours.

Approaches to information disclosure



Principles-based disclosure: description (1)

- Mode of disclosure that relies upon principles as opposed to distinct rules.
- Parties would disclose any information that they hold that they expect would have a material impact on prices in the wholesale market if it was made publicly available.
- Approach is used in Europe (REMIT), the NZX (continuous disclosure) and the NZ electricity sector.
- May include exclusions, for example to avoid impacts on companies' IP.
- Guidelines developed by the industry body to assist parties.
- Monitoring regime/incentives to measure adherence.



Principles-based disclosure: description (2)

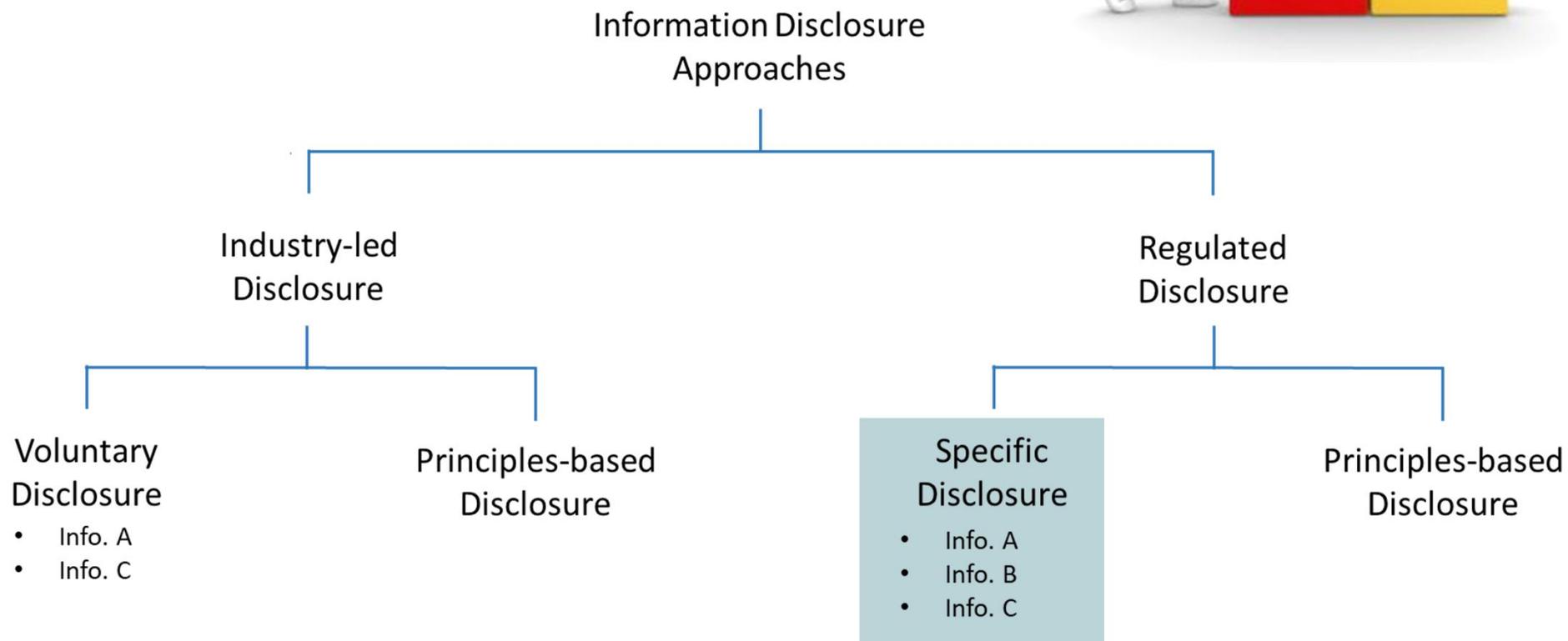
- Could be implemented as an industry-led or regulatory arrangement.
- In all countries and markets we have reviewed, principles-based disclosure is implemented under regulation.
- Practical issues could make an industry-led approach difficult.
- For instance, key compliance monitoring and enforcement aspects may be difficult under an industry-led approach.



Principles-based disclosure: pros and cons

Advantages	Disadvantages
<ul style="list-style-type: none">• Can cover a variety of circumstances, some of which may be unforeseen initially.• If drafted broadly enough, less likely to require amendments to cover unanticipated issues.• Outcomes-based approach - focussed on achieving the desired outcome – an efficient wholesale gas market – rather than a prescriptive rules-based regime.• Consistent with approach adopted in NZ electricity market (→ pan energy-sector consistency).	<ul style="list-style-type: none">• May lead to uncertainty as to what pieces of information should be disclosed → cost.• May be difficult for industry body to monitor compliance → monitoring cost.• Can require high levels of guidance.• Potential for parties to take diverse approaches to disclosure.• If exclusions are included (e.g. electricity Code), there may be disagreement over their application.

Approaches to information disclosure



Specific information disclosure: description

- Information provided by parties is based on compliance with specific disclosure rules.
- Approach used in Western and East Coast Australia gas markets (gas bulletin boards and gas statement of opportunities).
- A regulatory approach – rules defined in regulation.



Specific information disclosure: pros and cons

Advantages	Disadvantages
<ul style="list-style-type: none">• Disclosure requirements are well-defined.• More cost effective than principles-based option – from both regulator and participant perspectives.• Less likely to be affected by allegations of regulatory inconsistency, bias or arbitrariness.	<ul style="list-style-type: none">• Rigid approach - may not be adaptable to changes in the gas wholesale market. Revisions to rules may be required over time.• Challenges associated with drafting precise rules – may contain gaps and ambiguities.• Potential for parties to 'game the rules'.• Different to approach in NZ electricity sector.

Mixture of approaches

- Information disclosure regime could be a mixture of approaches.
- For example, principles-based regime may be mixed with specific rules.
 - NZX continuous disclosure coupled with practice notes that specify particular types of information.
 - Electricity principles-based disclosure coupled with specific rule around outage disclosure.



Coverage (1)

- Objective of an information disclosure regime would be to improve information transparency and reduce asymmetry to promote fairness and improve efficiency.

→ coverage of parties should extend across all parties whose actions could affect market volumes and prices.

- This logic has driven coverage of information disclosure in:
 - NZ wholesale electricity sector
 - Australian gas markets
 - European electricity and gas markets.



Coverage (2)

- Following this approach, coverage could include:
 - Producers
 - Transmission operators
 - Major users
 - Shippers
 - Traders
 - Market operation service providers
- May be appropriate to include a minimum size threshold to focus information disclosure on those parties who could have a 'material' impact on the market.
- Interested to understand options for this threshold (if any).
- Some parties have commented that there are competitiveness issues associated with disclosure. Interested to understand these and how they weigh against potential benefits of information disclosure.

Approaches to information disclosure: Break-out group questions



- What parties should be covered by a disclosure regime? Why? What are the issues?
- What do you consider to be the issues associated with industry-led and regulatory approaches to information disclosure?

Information disclosure rule options



- Several options have been presented in the paper.
- We may not have captured all options.
- Or, we may have mischaracterised the options that we have presented.
- Interested to hear your thoughts on these issues through the submissions process.

Planned outage disclosure: description

- Scope would cover planned outage information for all gas production facilities, transmission pipelines and major users
 - e.g. the information provided by OMV on the Pohokura Intervention Campaign, information provided by First Gas on the Maui pipeline buckle outage.
- Outlook period would need to be determined – length of period is a trade-off between information accuracy and availability to the market (e.g. 12 months ahead in Australian bulletin boards).
- Parties would update information as they gained better information on the event or if circumstances change.

Planned outage disclosure: pros and cons

Advantages	Disadvantages
<ul style="list-style-type: none">• Expect that this would improve information transparency in the market: outages, both planned and unplanned, have a major impact on the market.• Consistent with disclosure regime in the NZ electricity sector.• A useful input in the Critical Contingency Operator's understanding of gas security of supply issues.• Would assist Transpower with monitoring electricity security of supply and outage planning.	<ul style="list-style-type: none">• There would be compliance costs.• May be inconsistent with confidentiality provisions in upstream parties' JV agreements.• May be inconsistent with confidentiality provisions in gas supply agreements.• There may be issues relating to the international competitive position of some major users.

Unplanned outage disclosure: description

- Scope would cover unplanned outage information for all gas processing facilities, transmission pipelines and major users.
- Would include unplanned changes in available supply capacity and unexpected changes in demand.
- A size threshold may be required to avoid reporting of 'small' or transient outages.
- Consistent with regimes in other countries and markets we've reviewed.

Unplanned outage disclosure: pros and cons

Advantages	Disadvantages
<ul style="list-style-type: none">• Expect that this would improve information transparency in the market: outages, both planned and unplanned, have a major impact on the market.• A useful input in the Critical Contingency Operator's understanding of gas security of supply issues.• Would assist Transpower with monitoring electricity security of supply.	<ul style="list-style-type: none">• There would be compliance costs.• May be inconsistent with confidentiality provisions in upstream parties' JV agreements.• May be inconsistent with confidentiality provisions in gas supply agreements.• There may be issues relating to the international competitive position of some major users.

Disclosure of traded volumes & prices: description (1)

- An understanding of traded quantities and prices by all parties in a market is important for the efficient operation of that market.
- emsTradePoint currently has market data behind its paywall.
- With the prevalence of bilateral contracts in the market, there is limited understanding of market prices.
- In Australia, the ACCC is currently publishing a producer gas price series that is based on the weighted average prices paid to producers under long-term GSAs.

Disclosure of traded volumes & prices: description (2)

- Option would include:
 - Lagged public disclosure of traded volumes and prices in emsTradePoint.
 - Publication of weighted average wholesale prices and traded volumes – e.g. long-term GSAs, or a broader range of GSAs.



Disclosure of traded volumes & prices: pros and cons

Advantages	Disadvantages
<ul style="list-style-type: none">• Would enable both suppliers and users of gas to make better informed business decisions.• May also support decision-making in the wider energy sector e.g. electricity sector participants interested in gas wholesale market information.	<p>Aggregated price & volume data</p> <ul style="list-style-type: none">• Gas contract information is commercially sensitive - particularly for gas supplied under bilateral arrangements. Could be addressed through aggregated price and volumes indices?• Compliance costs to parties in providing contract price and volume information.• Administration costs – associated with collecting, manipulating and publishing information. <p>emsTradepoint price and volume data</p> <ul style="list-style-type: none">• emsTradepoint may lose a revenue stream – parties who are happy with lagged data.

12 month outlook for production & consumption: description

- Currently, limited understanding of gas availability over the coming year.
- Option would involve producers and possibly major users providing forecast volume information for the year ahead.
- Information on amount of gas that is contracted?



12 month outlook for production & consumption: pros and cons

Advantages	Disadvantages
<ul style="list-style-type: none">• Disclosure of a 12-month outlook for gas production (and possibly consumption) would improve electricity security of supply:<ul style="list-style-type: none">• Electricity system operator would have a better understanding of thermal fuel availability.• May improve electricity market participants' understanding of factors affecting the market.• May improve the operation of the gas wholesale market (emsTradepoint and the wider market) – better knowledge enabling more informed decisions.	<ul style="list-style-type: none">• Forecast production and consumption information is commercially sensitive. Possibly addressed through aggregating data?• Compliance costs to parties in providing contract price and volume information.• Administration costs – associated with collecting, manipulating and publishing information

Disclosure of petroleum field information

- Petroleum field information is disclosed annually by E&P companies to MBIE under the Crown Minerals Act.
- MBIE releases:
 - 2P and 2C figures for oil, condensate, gas and LPG reserves
 - Gas system deliverability by field for the prior year
 - Gas production profiles by field
 - Activity statistics for various types of permits
 - Quarterly production, stocks, and consumption data
- Understand that MBIE is currently looking at the data it publishes.
- Appears no need to replicate this disclosure under a separate disclosure regime.

Information disclosure rule options: Break-out group questions



- What options have we missed that should be considered?
- Have we mischaracterised any of the rule options?
- What do you consider to be the issues associated with:
 - Planned outage disclosure?
 - Unplanned outage disclosure?
 - Disclosure of traded volumes & prices?
 - Disclosure of 12 month outlook for production and consumption?

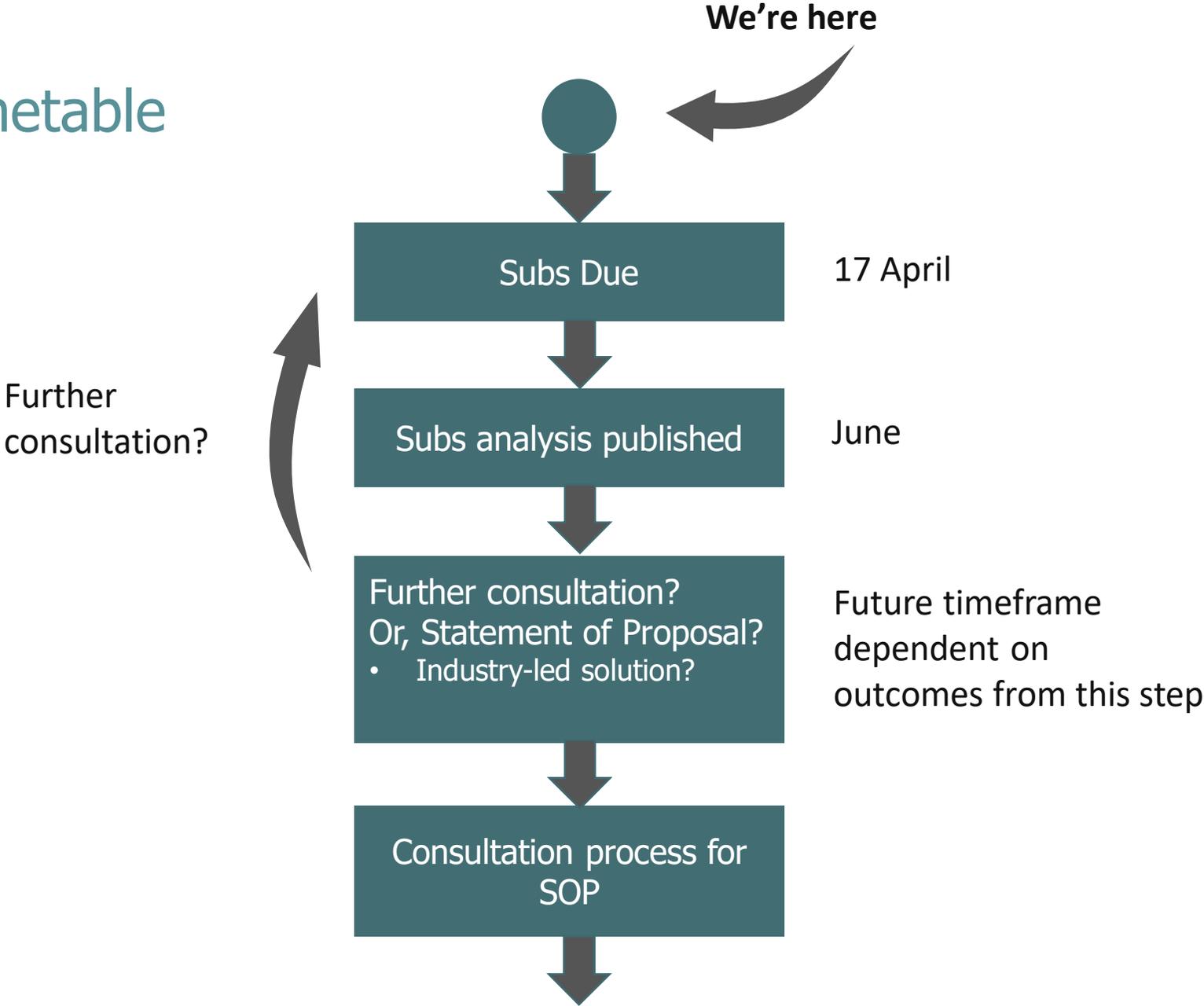
Publication Channels

- Various options, some more suited to particular types of information.
- Options include:
 - bespoke website, that could be set up and managed by GIC
 - Separate webpages on the GIC website
 - Extended version of POCP (electricity sector's information disclosure platform), effectively becoming an energy sector platform.
 - Possibly First Gas's TACOS environment.
- Important attribute of the channel is that it should be easy for the broader public, as well as energy sector participants, to access data.
- It should not duplicate information that exists elsewhere – link to other sources.

Costs and Benefits

- Costs and financial benefits are important to understand
- We don't know your business as well as you do, we don't know your risk management strategies and therefore we can't tell you what the cost / benefits are for you.
- The analysis is subjective and requires assumptions, but needs to be done.

Timetable



Thank you,
We look forward to your submissions