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Submission on *Options for Information Disclosure in the Wholesale Gas Sector*

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PEPANZ Submission: Options for Information Disclosure in the Wholesale Gas Sector

Introduction

1. This document constitutes the Petroleum Exploration and Production Association of New Zealand's (PEPANZ) submission in respect of the *Options for Information Disclosure in the Wholesale Gas Sector* Consultation Paper[1].
2. Established in 1972, we are the industry association of the upstream oil and gas sector. We proudly represent the companies that explore for, and produce, New Zealand's oil and gas resources. Our members produce an estimated 95 percent of New Zealand's petroleum. We also represent more than 50 associate member companies who provide a wide range of goods and services to the industry.
3. In preparing this submission, PEPANZ consulted with its gas-producing members which are Beach Energy, OMV, New Zealand Oil and Gas, and Todd Energy.

Executive summary

- PEPANZ gas-producers Todd Energy, OMV and Beach Energy (including Beach's JV partners Genesis Energy and New Zealand Oil and Gas) agree that information about outages is important for a well-functioning gas market.
- We want to work with the GIC to develop a voluntary, industry-led disclosure framework in relation to Planned Outage Information and Unplanned Outage Information. This will ensure that consistent information is made publicly available to all interested parties.
- We do not consider that the case has been made for more widespread interventions, and do not consider disclosure of additional petroleum field data or pricing/volume data is useful or appropriate.

Process and problem definition

4. We support the consultative manner in which the Gas Industry Company (GIC) has engaging on the current matter of information disclosure, and will work with the GIC throughout.
5. The Consultation Paper identifies a number of policy interventions, but this precedes the establishment of a crystallised problem definition from which options can be judged. Best practice policy analysis requires a problem definition and a corresponding intervention logic that demonstrates how a given policy will efficiently resolve the problem. We are not yet satisfied that widespread changes are warranted in the absence of this work and we consider that the GIC should consider a further round of consultation after this current process if it wishes to implement rules beyond voluntary disclosure of outages.

[1] https://www.gasindustry.co.nz/work-programmes/gas-sector-information-disclosure/consultation/

6. We note the view of the Electricity Authority:

> "In the UTS [Undesirable Trading Situation] decision, the EA found there was information asymmetry with regard to gas outage information although, it considered that this asymmetry was small and often non-material, and the best available information was still uncertain. The EA signalled that "the perception of information asymmetry was larger than the actual asymmetry… this was largely caused by difficulty in accessing information regarding gas outages and other indicators of the gas supply situation."."[2]

7. We consider that the GIC must carefully consider the above finding before progressing work beyond the simple disclosure of outages on a voluntary basis. Information disclosure has costs associated with it, so there must be a clear countervailing benefit. There is a risk that disclosure requirements, if too strict, may require the publication of inaccurate or uncertain information that other parties may act upon to their detriment.

Planned Outage Information and Unplanned Outage Information

8. We understand the Pohokura outage prompted concern from the Minister of Energy and Resources and some other stakeholders about information disclosure which has led to the current work programme. Major users have reportedly said that they were getting different information from different suppliers and at different times. We accept that this is less than ideal.

9. We understand that outage information can be important to gas users for two key reasons:

    i. Gas availability can affect operations.

    ii. Knowledge of outages and their duration can allow coordination of plant maintenance.

10. We therefore support greater disclosure of Planned Outage Information and Unplanned Outage Information. PEPANZ, on behalf of OMV, Todd Energy and Beach Energy (including Beach's JV partners Genesis Energy and New Zealand Oil and Gas) have engaged with GIC directly to begin a process of working towards a voluntary model for disclosing information about planned and unplanned outages, with a focus on events of materiality to the market and major users.

11. A voluntary disclosure model with unanimous support from PEPANZ producers will ensure information is released in a consistent manner that stakeholders can have confidence in. We are inclined to support the view of TDB Advisory which said in its interim report to the Major Electricity Users' Group (MEUG) that:

> Information asymmetry is not limited only to the release of information into the public domain. It also includes quality of information (accuracy, substance); timeliness; certainty of disclosure (if there is new information stakeholders are made aware); consistency (different stakeholders have the same facts); and availability ("one source of truth" to reduce search).[3]

12. As part of an outage disclosure regime, we consider that ideally major users should also be part of a disclosure regime given their major role on the demand side, pending their feedback on the Consultation Paper.

13. We support a voluntary, industry-led option because it is a simple and low cost solution, and can be amended with ease over time to ensure the framework is achieving the intended purpose. Gas producers have a strong interest in the framework being satisfactory to gas users and other stakeholders, fully aware that a regulatory intervention sits there as an option if a voluntary solution is not working.

14. We are still in the process of determining the relative merits and appropriateness of rules-based or principles-based approach.

15. We understand that some stakeholders perceive that confidentiality clauses are employed simply in order prevent disclosure. In reality, standard confidentiality and non-disclosure clauses are used that typically apply to contracts as a whole, i.e. clauses do not cover what can be said about specific aspects of the contract. As part of our proposal to develop a voluntary industry-led disclosure framework we are considering how producers sit in terms of confidentiality clauses, but note that it has been typical for producers to share information about planned outages, including at a quarterly Joint Petroleum Operators and Regulators' Issues and Practice Forum.

Twelve Month Outlook for Gas Production and Consumption and Traded Volume and Price Data

16. The discussion document contemplates requiring disclosure of traded volumes and prices, and further information about production forecasts. We do not support disclosure of this information as part of the current process.

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[2] Referenced on p12 of the GIC's *Options for Information Disclosure in the Wholesale Gas Sector*.

[3] *Gas Sector Governance Interim Report*. TDB Advisory. P Barry and M Burgess. 22 March 2019. Page 4.

17. We agree with TDB Advisory in its Interim Report[4] to MEUG which stated "Disclosure rules for commercial information could carry greater risks of unintended consequences. It is not clear what problem commercial disclosure might solve."

18. Before such information relating to forecasts and pricing is required, clear problems with the status quo must be demonstrated as well as how disclosure actually resolves the problem. We do not consider either part of that equation has been adequately addressed.

19. We respectfully note that GIC discussion document mistakenly states that forecasts for production from each field are unavailable, but production forecasts are submitted to MBIE by producers and made publicly available. 2P reserves and 2C resources are also reported and published.[5]

20. The Consultation Document contemplates requiring more information about 2C resources (in terms of the nature of the contingency) and exploration activity. We do not consider these are relevant to near-term production.

21. In relation to the idea of requiring price and volume disclosure, we consider these to be of genuine commercial sensitivity and oppose it being publicly required. Prices do indeed distil and convey complex and dispersed information, but this information does not necessarily reflect supply and demand dynamics. If security of supply is the main concern, then this would be better addressed by disclosure of outages as we propose.

Publication channels

22. We are open to exploring what publication channels will work best for producers and interested stakeholders and are keen to work through this over the coming weeks.

The gas position of generators

23. We would like to note that the Electricity Authority's *Guidelines for participants on wholesale market information disclosure obligations*[6] states that information about a significant change in fuel supply should be disclosed. Specifically, the EA states:

> A significant change in fuel supply situation – examples include buying (or selling) a significant quantity of coal, entering (or exiting) a significant gas contract, or a significant change in fuel storage/stockpile/transport capabilities [should under normal circumstance be disclosed]

24. The gas position of generators is important as it affects electricity prices and also the value of water for hydro generators. 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. The EA guidelines mentioned are less than one year old so may potentially need to better promoted and utilised, but using current frameworks is preferable to designing new ones where possible.

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[4] ibid.

[5] Production profiles and reserve data can be found under the *Gas Statistics* and *Reserves* files which are located at the *Energy in New Zealand* page of the MBIE website: https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-publications-and-technical-papers/energy-in-new-zealand/

[6] Electricity Authority. 29 May 2018. https://www.ea.govt.nz/about-us/what-we-do/our-history/archive/dev-archive/work-programmes/market-wholesale-and-retail-work/wholesale-market-information/implementation/guidelines-for-participants-on-wholesale-market-information-disclosure-obligations-finalised/