

1 September 2020

Hannah Hopper
Adviser Wholesale Markets
Electricity Authority
By email to WMID@ea.govt.nz

Dear Hannah

Review of Thermal Fuel Information Disclosure—Consultation Paper

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper "Wholesale market information disclosure, Review of Thermal Fuel Information Disclosure" published 21st July 2020.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Several members intend making submissions.
3. MEUG members have appreciated the opportunity to meet with Authority staff and advisors to the Authority on this important workstream. Those meetings and the advice we received have assisted MEUG prepare this submission and how if and how we should engage with parallel workstreams by the Gas Industry Company and MBIE (in relation to changes to the Gas Act) to improve thermal fuel information disclosure.
4. The electricity and gas sectors has voluntarily and with the facilitation of the GIC, Authority and MBIE improved the quality and timeliness of thermal fuel outage information available to market participants since the catastrophic events in the electricity and gas markets in spring 2018 that led to MEUG and the Major Gas Users' Group (MGUG) writing to MBIE in December 2018². We mention that correspondence because the alignment and integration of information flows between the electricity and gas markets remains, in our view, only part of the overlap in governance and regulatory frameworks between those markets that could be jointly improved in terms of security of supply and affordability for the long-term benefit of electricity and gas consumers.
5. Given the improvement in gas supply outage information, the policy issue is what is left to improve in the gas market that can be achieved at relatively low cost but with a high probability of high benefits? MEUG has adopted that measure in considering the proposed four initiatives in the paper. MEUG's views follow:

¹ URL <https://www.ea.govt.nz/dmsdocument/27060-wholesale-market-information-disclosure-consultation-paper> at <https://www.ea.govt.nz/development/work-programme/risk-management/wholesale-market-information-disclosure/consultation/#c18525>.

² MEUG and MGUG joint letter of 14th December 2018 URL at <http://www.meug.co.nz/node/969> and MBIE reply of 21st December 2018 at <http://www.meug.co.nz/node/973>. Copies are appended to this submission.

a) Making a Code amendment mandating quarterly reporting of disclosure activities and annual certification by some participants is in MEUG's view a higher cost option compared to the alternative of:

- The Authority facilitating awareness by participants of their obligations. The Authority proposes this in any case, see b) below.
- Improving monitoring by the Authority and if needed pro-actively pursue code breach claims to reinforce to all participants Code obligations are not voluntary.

The proposal will add compliance costs onto certain participants including participants that are already compliant. To change the behaviour of currently non-compliant participants the lower cost option is that they are targeted by the Authority. That creates the best suite of incentives on non-compliant parties to lift their game and the Authority to target its resources to ensure compliance than rely on penalising everybody with additional compliance costs in the hope that will lower the workload to the Authority.

Therefore, MEUG does not support the proposal to making a Code amendment mandating quarterly reporting of disclosure activities and annual certification by some participants.

- b) MEUG agrees with the proposal to update the disclosure guidelines to provide greater clarity regarding disclosure obligations and reflect recent developments.
- c) MEUG agrees with the proposal to raise awareness of existing disclosures e.g., via a disclosure reference webpage which links to published information.
- d) MEUG agrees with the proposal to clarify where parties should disclose information about their availability being impacted by a fuel constraint e.g., via a centralised website such as WITS. MEUG notes WITS is one of many options to consider.

This work should commence as soon as possible. The scope of this work should be wider than just managing information flows. It should consider the needs of the System Operator managing security of supply because there may be governance and operational co-benefits to gas and electricity consumers. Hence our view set out in paragraph 4 beforehand that policy makers should be mindful of broader opportunities for improving the gas and electricity markets.

- e) The quality of disclosure of the spot price of gas in Table 1, p20, is considered "Information disclosure somewhat satisfies qualifier, improvements may be merited." MEUG recommends this should be a priority topic for the second phase of the EA work along with facilitating publicly accessible longer-term future curve or similar for gas prices, i.e. work on thermal price information needs to continue.

Yours sincerely



Ralph Matthes
Executive Director

14 December 2018

Chris Bunny
Deputy Chief Executive
Building, Resources and Markets
Ministry of Business, Innovation and Employment
By email to chris.bunny@mbie.govt.nz

Dear Chris

Spring 2018: Demonstrates the need for a wider strategic perspective on the gas and electricity markets

1. Yesterday the Major Electricity Users' Group (MEUG) Executive Committee and the Major Gas User's Group (MGUG) met separately and discussed the performance of the gas and electricity markets over spring 2018. This letter sets out the joint view of MEUG and MGUG that given the performance of the gas and electricity markets over spring 2018 a wider strategic perspective on both of those markets is needed.
2. Given the importance of what is at stake and to keep them informed of our views, we have copied this letter to the office of Hon Dr Megan Woods, sector regulators and Chairs of the Electricity Price Review Expert Advisory Panel and Interim Climate Change Committee.
3. The physical spot markets, hedge markets and transmission systems in the gas and electricity markets have been stretched this spring. In the gas market some customers, including generators, have had supply cut-short and have had to curtail production. The flow-on to the electricity market has impacted a number of businesses, with some facing high costs and/or the need to reduce production to manage cost pressures. Confidence in the market to manage risk if similar events reoccur has been undermined.
4. MEUG and MGUG are engaging constructively in the key reviews and investigations that are underway, including:
 - MBIE reviewing with the Gas Industry Company (GIC) gas outage information transparency protocols;
 - Electricity Authority (EA) investigation of an Undesirable Trading Situation (UTS) claim lodged 8th November, commencing 15th September and ongoing;
 - EA review of wholesale market issues during Spring 2018 including the HVDC outage planned for 22nd to 27th November; and
 - Electricity Price Review by the Expert Advisory Panel.
5. MEUG and MGUG believe that the above work should lead to improvements to the gas and electricity sectors. However, we are also of the view that the strategic question not addressed is whether the policy framework governing the interaction and interdependencies between the gas and electricity sectors, highlighted by events this spring, are robust.

6. Our view is a wider perspective across the gas and electricity sectors might find solutions with better outcomes than incremental improvements to each market separately.
7. If the events of Spring 2018 are a window to a future with constrained, or no, domestic gas production and supply and therefore higher energy prices whether due to intermittent renewable electricity supply, higher carbon costs or some other reason, then the view for our respective members is not attractive.
8. Some of our members have expressed a perception that the markets are not functioning as well as they should. As mentioned before, in the near-term the confidence of existing consumers of gas and electricity in how to manage risk if similar events reoccur has been affected.
9. In the longer-term investor confidence may have been affected because:
 - future similar events are likely to be more frequent and severe as gas supply becomes tighter and less diverse; and;
 - the events of Spring 2018 and policies over the last year have led to the prospect of future gas prices rising in the near and long-term and therefore so too will electricity prices given gas will, for the foreseeable future, set marginal prices.
10. Households exposed to the spot price will have been similarly affected by the above trends. Those households not exposed to the spot price will still likely experience retail price rises as a result of the recent spring.
11. Perceptions of how the markets have functioned are important to confidence in those markets. We think Spring 2018 has set back perceptions that the gas and electricity markets are functioning well.
12. A strategic review of the gas and electricity sectors and their inter-dependencies we suggest falls with the ambit of MBIE. The 4-workstreams listed above look at either the gas sector or the electricity sector, but none of them look across both. The expertise of the regulators and advisory groups already engaged in work for those sectors though would assist an MBIE review.
13. MEUG and MGUG would welcome an opportunity to discuss this request with MBIE and provide further information as required.
14. Our preference is to be as transparent as possible in any engagement with regulators and officials on material strategic issues and communications in order that we can demand the same of other parties. Therefore, we propose to publish this letter no earlier than one week from today.

Yours sincerely



John Harbord
Chair, MEUG



Richard Hale
Secretariat for MGUG

cc Office of the Hon Dr Megan Woods, c/- Vanessa Head
cc Dr Brent Layton, Chair, Electricity Authority
cc Dr Mark Berry, Chair, Commerce Commission
cc Rt Hon James Bolger ONZ, Chair, Gas Industry Company
cc Miriam R Dean CNZM QC, Chair Expert Advisory Panel
cc Dr David Prentice, Chair Interim Climate Change Committee



21 December 2018

John Harbord
Chair
Major Electricity Users Group
Via email john@senateshj.co.nz

Richard Hale
Secretariat for Major Gas Users Group

Dear John and Richard

Thank you for your joint letter highlighting your concerns about the operation of the gas and electricity markets and the need to undertake a strategic review of these two markets.

The Ministry of Business, Innovation and Employment (MBIE) acknowledges the difficult circumstances electricity and gas consumers have endured due to gas production outages in 2018. It is strongly in the public interest that the impact of supply side outages, in terms of availability and pricing, are minimised in future.

We share the energy industry's concerns that information provided during recent outages was not adequate and did not facilitate efficient market behaviour. The inadequate information led to market uncertainty, increased prices for consumers, and the allegation of an undesirable trading situation notified to the Electricity Authority by several energy sector participants.

As you note in your letter, MBIE is undertaking and involved in several programmes of work in relation to the electricity and gas sectors. MBIE's programme of work to make changes to the Gas Act 1992 will improve the management of critical contingency events, and allow the Gas Industry Company to recommend governance arrangements that will improve information disclosure to the wholesale gas market. These changes are likely to enhance long-term physical and economic security of supply.

In addition, in April 2018 the Government commissioned an independent Electricity Pricing Review (EPR) to investigate whether the electricity market is delivering fair and equitable prices to consumers. This includes possible improvements to ensure the market and its governance structures will continue to be appropriate into the future. The independent Expert Advisory Panel will submit its final recommendations to the Minister of Energy and Resources in May 2019. In my view, the recommendations of the EPR should be received and considered before commenting on the need for a broader review of market and governance structures of both the gas and electricity sectors.

MBIE is also supporting a wider range of cross-government work, including the setting of a 2050 emissions reduction target and the establishment of the Independent Climate Change Commission. MBIE is also leading a broad review of the Crown Minerals Act 1991.





Given the scope and breadth of work being currently undertaken, and the need for the EPR to deliver its final recommendations, I consider that now is not the appropriate time to initiate a strategic review of both markets. It is worth noting that the Minister of Energy and Resources and Cabinet would make any final decision on embarking on a strategic review of the gas and electricity sectors.

Yours sincerely

Chris Bunny
Deputy Chief Executive
Building, Resources and Markets
Ministry of Business, Innovation and Employment