

Wholesale market information disclosure

Stakeholder briefing

14 August 2020

COMPETITION • RELIABILITY • EFFICIENCY

Agenda

Part 1: Consultation Paper

- Background and existing disclosure obligations
- Problem definition
- Description and aim of proposed actions

Part 2: Explanation of key data sources in understanding the interaction of the gas and electricity markets

Part 3: Proposals

- Survey results
- Review of guidelines (proposal 2)

Part 4: Update from Gas Industry Co

Housekeeping

Zoom etiquette:

- When you are not speaking, please remain on mute in order to minimise interruption to the session.
- If you wish to ask a question;
 - please remember to un-mute your microphone
 - or feel free to use the 'Raise hand' function on Zoom – we'll be watching out during the session and will pause for questions.

Submissions & open dialogue: the focus of this briefing is to provide an opportunity to raise ideas to help develop submissions and thinking

Time limit: This session is limited to 2 hours. If we run out of time to respond to questions in this session, we welcome attendees to submit any further questions to the Authority in writing (WMID@ea.govt.nz). The Authority will aim to respond to further questions in the week following this briefing.

Key points

- **Thermal fuel information is a key driver of electricity prices.** With access to more information participants have more visibility of market activities and can better manage risk, which will benefit consumers in the long-term through more efficient prices.
- We engaged with a number of participants and received useful feedback about perceived information gaps. **Concerns about thermal fuel information were the loudest.**
- **Forward looking information on the gas sector has improved significantly in the last 12 months** due to initiatives facilitated by Gas Industry Co.
- **Problem definition:** the key outcome for an effective wholesale market is confidence in efficient prices, and currently there is a genuine or perceived view that prices are not as efficient as they could be because some useful thermal fuel information is absent from the market.
- We have **four key proposals** aimed at ensuring the Code's disclosure requirements are being met and at making thermal fuel information easier to find and use.
- We are also asking for stakeholder feedback on the **exclusions**. We think there could be problems with the confidentiality exclusion but want to gather more data before making any changes.

Context

Drivers/ context: Spring 2018 conditions, EPR recommendations, market makers without thermal fuel positions, ongoing GIC work

Forward looking information on the gas sector has improved significantly over the last 12 months.

Initiatives by Gas Industry Company include:

- facilitating publication of information provided by gas producers on major planned and unplanned outages
- publishing monthly updates on total gas in storage, and injection and withdrawal rates for the month, as provided by Flex Gas.

Upstream gas producers have also developed the 'upstream gas outage information disclosure' code.

Scope and key milestones

Goal: identify and address information disclosure gaps to improve wholesale electricity market confidence and efficiency

Scope: project will focus on thermal fuel disclosure, but we are also surveying stakeholders on other perceived gaps for possible attention in Phase 2

How: (amongst other things) closely engaged with Gas Industry Co and Authority HME project

Milestones	Date
Desk-based research, informal stakeholder meetings	From Dec 2019
Scoping paper to Board	Feb 2020
Update paper to Board	May 2020
Consultation paper to Board	June 2020
Consultation on problem definition and high level options	Q1 2020/21 FY
Decision paper	Currently targeting Dec 2020, but note: (a) possibility of delay if second consultation on detailed options and Code amendment needed (b) possibility of splitting off quick wins
Implementation of significant changes	2021

Previous work in this area

Date	Activity	Key change to rules
2013	WAG recommended disclosure rules were amended. The current disclosure obligations in clause 13.2A of the Code came into force on 1 October 2013.	Principles based requirement for parties to publish, as soon as reasonably practicable, information about themselves which could materially impact prices, plus 10 exclusions
2015-16	WAG reviewed and recommended changes to the exclusions	Recommendations to remove the 'commercial disadvantage' exclusion and replace it with a 'reasonable person' exclusion
2017-18	Authority subsequently picked up WAG's recommendations, consulted and published decisions.	Replaced the 'commercial disadvantage' exclusion with a 'reasonable person' exclusion

Existing provisions

- **Clause 13.2A(1)** of the Code requires participants to disclose ‘disclosure information’, to the public, free of charge, as soon as reasonably practical after a participant becomes aware of it, unless one of the exclusions in Clause 13.2A(2) applies.
- ‘Disclosure information’ – information that could have a material impact on prices in the wholesale market that is about the participant and held by them.
- Guidelines were developed to support participants to understand their obligations. Includes high-level example of a change in the fuel supply situation.

Other disclosure obligations

- Participants are required to disclose outage information to the system operator under **Schedule 8.3**, Technical Code D of the Code.
- Listed companies also face continuous disclosure obligations to publish anything that may materially impact their share price.

The existing provision has nine exclusions

13.2A Participant must make disclosure information readily available

- (1) Each **participant** must make all **disclosure information** in relation to the **participant** readily available to the public, free of charge, as soon as reasonably practicable after the **participant** becomes aware of the information.
- (2) Despite subclause (1), a **participant** is not required to make **disclosure information** readily available to the public if—
 - (a) the **disclosure information** is excluded Code information; or
 - (b) *[Revoked]*
 - (ba) a reasonable person would not expect the **disclosure information** to be made readily available; or
 - (c) the **participant** is bound by a legal obligation to keep the **disclosure information** confidential; or
 - (d) doing so will be a breach of law; or
 - (e) the **disclosure information** is already readily available to the public; or
 - (f) the **disclosure information** concerns an incomplete proposal or negotiation; or
 - (g) the **disclosure information** comprises matters of supposition or is insufficiently definite to warrant being made readily available to the public; or
 - (h) the **participant** claims legal professional privilege or privilege against self-incrimination in respect of the **disclosure information**; or
 - (i) the **disclosure information** is a trade secret.

An efficient WMI disclosure regime will strike a balance between costs and benefits

Benefits of Information Disclosure

Competition – reduces the imbalance between informed and uninformed parties, encouraging:

- greater market participation
- More confident and active trading
- more liquid markets
- a more robust view of forward prices.

Reliability – assists in ensuring security of supply by allowing better coordination of outages.

Efficiency – reduces uncertainty leading to more efficient decision making, fewer 'errors', efficient prices.

Monitoring – facilitates easier and better monitoring of participants' behaviour.

Costs of Information Disclosure

- May reduce incentive to innovate.
- May facilitate collusion.
- May encourage exercise of market power.
- Costs to participants of supplying information.
- Costs of additional monitoring and enforcement.
- Costs to develop and maintain databases.

What we learned from early bi-lateral meetings

Overwhelming support for concentrating attention on issues around thermal fuels

Other topics that came up:

- Improvements to the Weekly Dispatch Schedule
- Demand forecasting (short term)
- Major users' demand response
- Hedge disclosure website
- A prohibition on insider trading

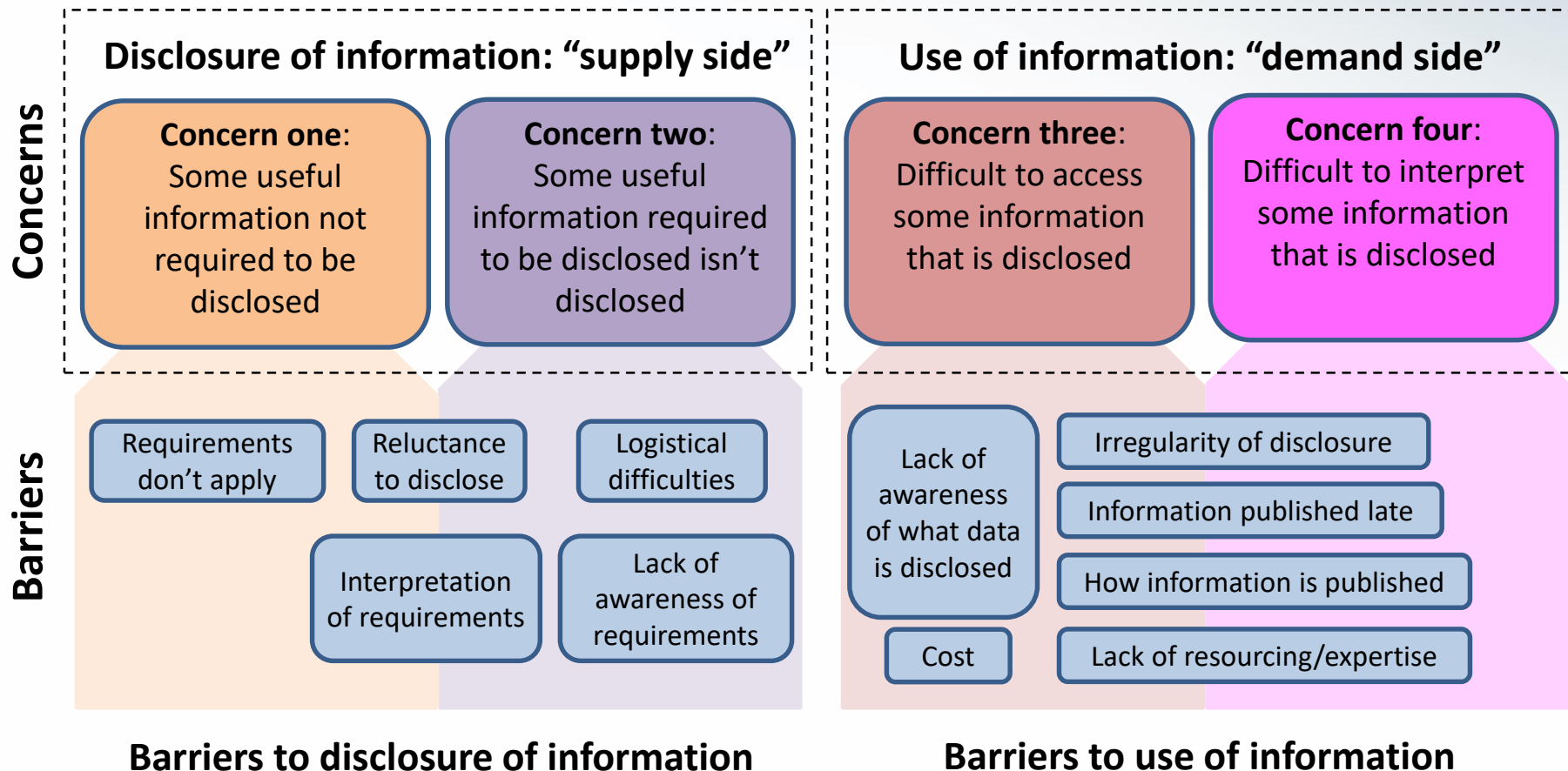
		Party A	Party B	Party C	Party D	Party E	Party F	Party G	Party H	Party I	Party J
1	Party requires information that is not being disclosed			X		X	X		X		
2	There are difficulties accessing or interpreting disclosed information	X		X	X	X					X
3	Market efficiency is hampered by thermal fuel information gaps		X	X		X	X	X	X		X
4	Market efficiency is hampered by <u>other</u> information gaps	X									
5	There are <u>no</u> information gaps related to thermal fuels	X			X					X	

Thermal fuel information stocktake *(illustrative)*

Type of information	Specific data	Historical, current, or forward looking data	Timing of release	Source	Required to assess security of supply	Required to ensure market confidence	Level of concern	Source
Huntly coal stockpile	Closing balance at quarter end	Current	Updated quarterly with ~4 week lag	www.genesisenergy.co.nz/investors/reports-and-presentations#quarterly	✓	✓	Info not req'd to be disclosed (and updated infrequently)	Genesis NZX disclosures
Genesis coal use and purchases	Coal use and purchases in quarter	Historical	Updated quarterly with ~4 week lag					Genesis NZX disclosures
International coal prices	Monthly average coal prices for benchmark coal (e.g. Newcastle)	Historical	Updated daily	www.indexmundi.com/commodities/?commodity=coal-australian				Various - e.g. World Bank
International coal prices	Futures contract prices for benchmark coal for 5+	Forward looking	Updated daily	www.barchart.com/futures/quotes/CL00/futuresprices		✓		Various e.g. ICE
Information on the availability and accessibility of thermal fuel is critical for accurate pricing, trading and dispatch decisions. Incomplete information has at times impeded efficient trading.								
Gas prices	Volume and price data for spot transactions	Current	Real time updates	www.ems.co.nz/services/le-mstradepoint/		✓		Ems-Tradepoint
	Contract price information	Current	Varies	Various NZX disclosures		✓	Information not req'd to be disclosed (except material info for companies listed on NZX)	Listed companies
Future gas supply	Info on gas purchase rights	Forward looking	Varies	Various NZX disclosures	✓	✓	Information not req'd to be disclosed (except material info under NZX listing rules)	Listed companies
Gas production	Annual and quarterly production by field	Historical	Updated quarterly with ~3-5 month lag	www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-statistics/gas-statistics/				MBIE
	Hourly/daily data by gate/meter for open access pipelines	Current	Real time updates	Data: www.oatis.co.nz/Ngc/Oatis_UI/Web/Internet/Common/OatisLogin.aspx Graphical summary: www.gasindustry.co.nz/publications/landing-pages/gas-production-and-major-consumption-charts/	✓	✓	Difficult to access - some data not available such as Kapuni gas production	OATIS
	24 hour forecast of scheduled quantities for Maui system gates (no data for non-Maui system)	Forward looking	Real time updates	See OATIS link above		✓	Information not req'd to be disclosed for some gas production stations (e.g. Kupe, Kapuni)	
	12 monthly rolling forecasts		Available to				Information not req'd to be	

Problem definition – thermal fuel disclosure

The **key outcome** for an effective wholesale market is **confidence in efficient prices**, and currently there is a widespread view that prices are not as efficient as they could be because some useful thermal fuel information is absent from the market.



Key proposals

Aim:

Ensure the Code's disclosure requirements are being met

1. Code change – mandatory quarterly reporting of disclosure activities and annual certification by some participants would ensure those participants are considerate of 13.2A obligations and provide information to facilitate monitoring and compliance

2. Update the Guidelines regarding thermal fuel disclosure

to provide greater clarity regarding disclosure obligations and reflect recent developments

Aim:

Make thermal fuel information easier to find and use

3. Raise awareness of existing disclosures eg, via a **disclosure reference webpage** which links to published information and publish a help document

4. **Clarify where parties should disclose information** about their availability being impacted by a fuel constraint eg, via a centralised website such as WITS

Proposal 1: Reporting on disclosure activity

1. Code change – mandatory quarterly reporting of disclosure activities and annual certification by some participants would ensure those participants are considerate of 13.2A obligations and provide information to facilitate monitoring and compliance

Benefits

- Increased respect for electricity market information disclosure requirements
- Increased transparency and confidence
- New information to support monitoring and compliance
- Clarity around usage use of exclusions

- Quarterly reporting
- Whether the organisation had disclosure information or not
- If yes, where it was published
- If it relied on an exclusions not to disclose information, which exclusion, and what was the information
- Annually, confirm organisation had a process in place to identify disclosure information
- Reporting to be published by Authority (anonymised)

Proposal 2: Update Guidelines

2. Update the Guidelines regarding thermal fuel disclosure

to provide greater clarity regarding disclosure obligations and reflect recent developments

Benefits

- Increased understanding of disclosure requirements
- Improved compliance outcomes
- More standardisation of outage information

- We want to add detail (scenarios) to the Guidelines to clarify the types of situations where disclosure is warranted.
- These are focused around the different situations where coal and gas supply could impact the availability of electricity generation.
- Aim is to facilitate – as much as possible – timely decision making on information disclosure

Proposal 3: Disclosure reference webpage

3. Raise awareness of existing disclosures eg, via a ***disclosure reference webpage*** which links to published information and publish a help document

Benefits

- Easier access to disclosure information
- Increased utility of existing information
- Increased confidence

- Authority hosted webpage
- Providing links to other sources of information in the market
- A help document to explain how to use these different sources of information

Proposal 4: Centralised disclosure website

4. ***Clarify where parties should disclose information*** about their availability being impacted by a fuel constraint eg, via a centralised website such as WITS

Benefits

- Easier access to disclosure information
- Increased utility of existing information
- Increased confidence
- Standardisation of outage information

- Possible reason for limited thermal fuel disclosures is lack of appropriate place to publish
- Identification (& build) of central website for disclosure

Wholesale Information Trading System (WITS) or associated website

Planned Outage Co-ordination Process (POCP)

Authority website

Notification to System Operator

Company webpages (various)

Gas Industry Co gas notification webpage

Next steps

- Please send in submissions by **01 September 2020**
- Decision paper planned for December to approve changes
 - > Proposal 3 could possibly be progressed earlier
- Phase 2
 - Could commence from 2021 CY
 - To address the other informational issues that have arisen during research for this project. The consultation paper contains a long list – we will prioritise one or a number of specific areas.

Part 2: Explanation of key data sources in understanding the interaction of the gas and electricity markets

Key points

1. A lot of raw information is available
2. Some information is hard to find or interpret
3. Gas data has improved significantly in last year or so

Thermal fuel information – some of the sources

Source	Type of information	Disclosure frequency	Period covered
Genesis	Coal stockpile, use and purchases	Quarterly	Historical
Contact	Gas storage	Monthly	Historical
First Gas	Gas transmission outages	Current outages	Historical
	Gas storage levels	Monthly (on GIC website)	Historical
MBIE	Gas use and production	Annual and quarterly	Historical
	Gas field deliverability	Max, min and average by field	Historical
	Gas storage	Quarterly	Historical
	Gas prices	Average by segment	Historical
	Forecast field production	Projected for future years	Forward looking
	Reserves and resources	1P, 2P, 3P and 2C by field	Historical
	Permit data	Annual activity data	Historical

Thermal information sources – cont'd

Source	Type of information	Disclosure frequency	Period covered
OATIS	Gas production and use	Hourly/daily by gate/meter*	Historical
		24 hour forecast*	Forward looking
Listed companies	Gas prices	Contract price information*	Historical
	Future gas supply	Gas purchase rights*	Forward looking
emsTradepoint	Gas prices	Volume/prices for 'spot' trades	Historical
Gas field operators	Current and planned outages	Various – disclosed on GIC website	Forward looking
Various platforms – e.g. ICE	International coal prices	Monthly averages for benchmark coal contracts	Historical
		Futures prices for benchmark coal	Forward looking

* Disclosure varies

Example – gas production outages

<https://www.gasindustry.co.nz/industry-notifications/>

Notifications Received

Pohokura – Planned Outages – August/September – UPDATE 000101

NOTIFICATION DATE	13 August 2020
SUBMITTING ORGANISATION	OMV New Zealand Limited

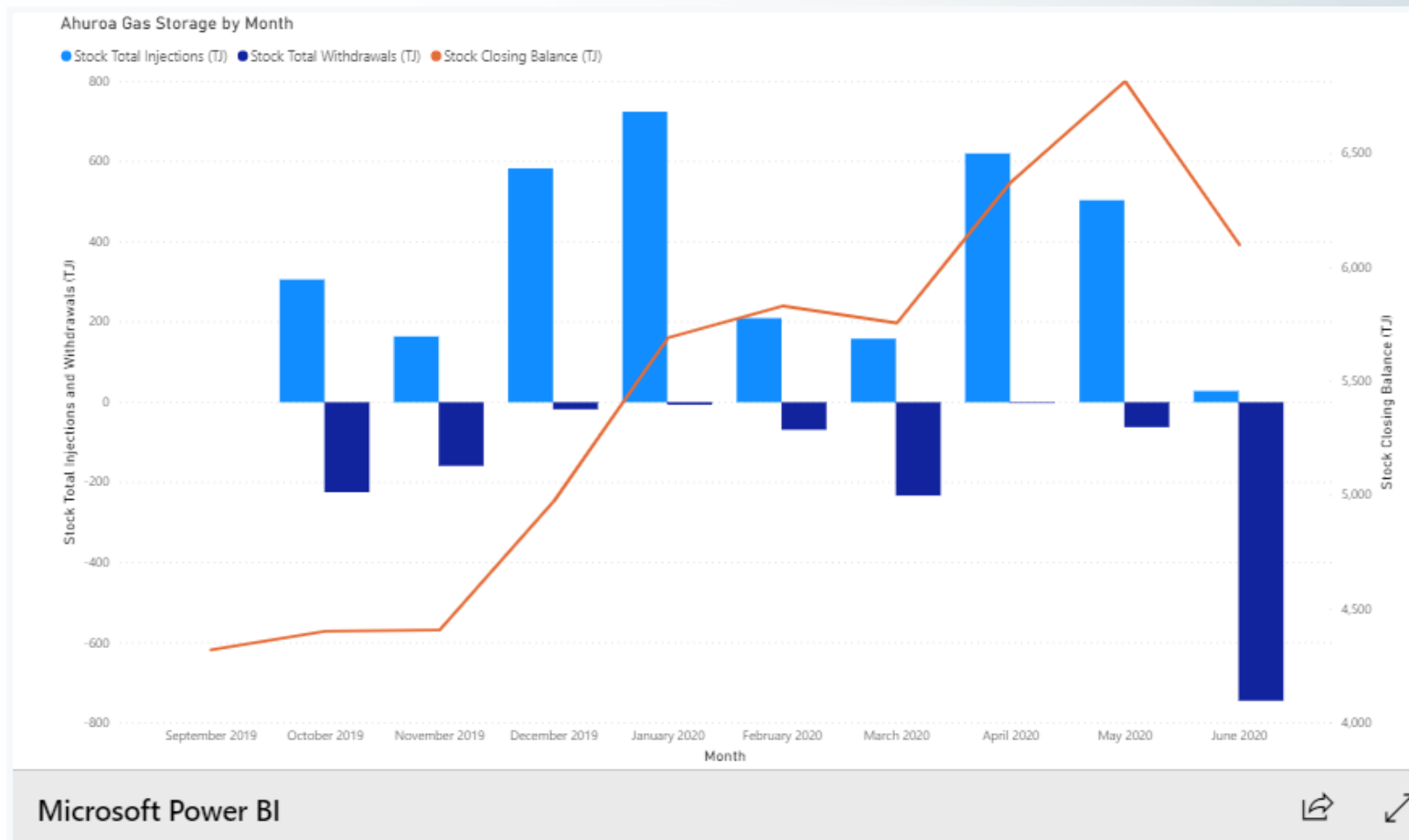
NOTIFICATION DETAILS

OMV New Zealand Limited provides the following updates regarding instances of forecast reduced deliverability at Pohokura over the August/September period. These instances replace all instances previously advised over the same time period.

18 August: Facility Maintenance, estimated reduction 99TJ
19 August: Well Maintenance, estimated reduction 53TJ
21–25 August: Well Maintenance, estimated reduction 30–38TJ/d
26 August: Well and Facility Maintenance, estimated reduction 61TJ
27–30 August: Well Maintenance, estimated reduction 38TJ/d
31 August: Well Maintenance, estimated reduction 20TJ
3 September: Facility Maintenance, estimated reduction 63TJ
4 September: Facility Maintenance, estimated reduction 24TJ
7 September: Facility Maintenance, estimated reduction 42TJ
9 September: Facility Maintenance, estimated reduction 26TJ

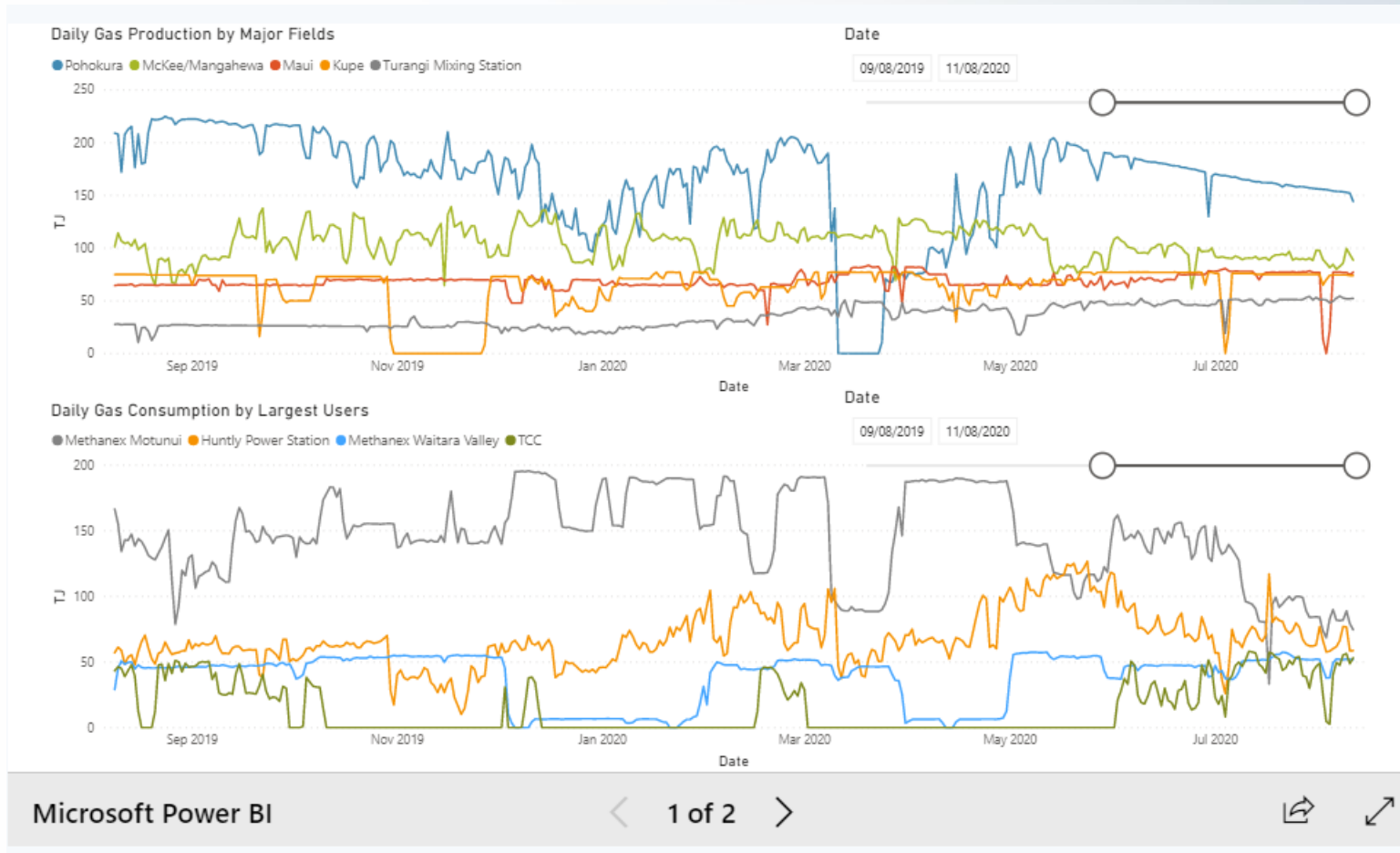
Gas storage

<https://www.gasindustry.co.nz/industry-notifications/>



Example – gas production and usage data

<https://www.gasindustry.co.nz/industry-notifications/>



Part 3a: Summary of Survey Results

Survey background & summary of results

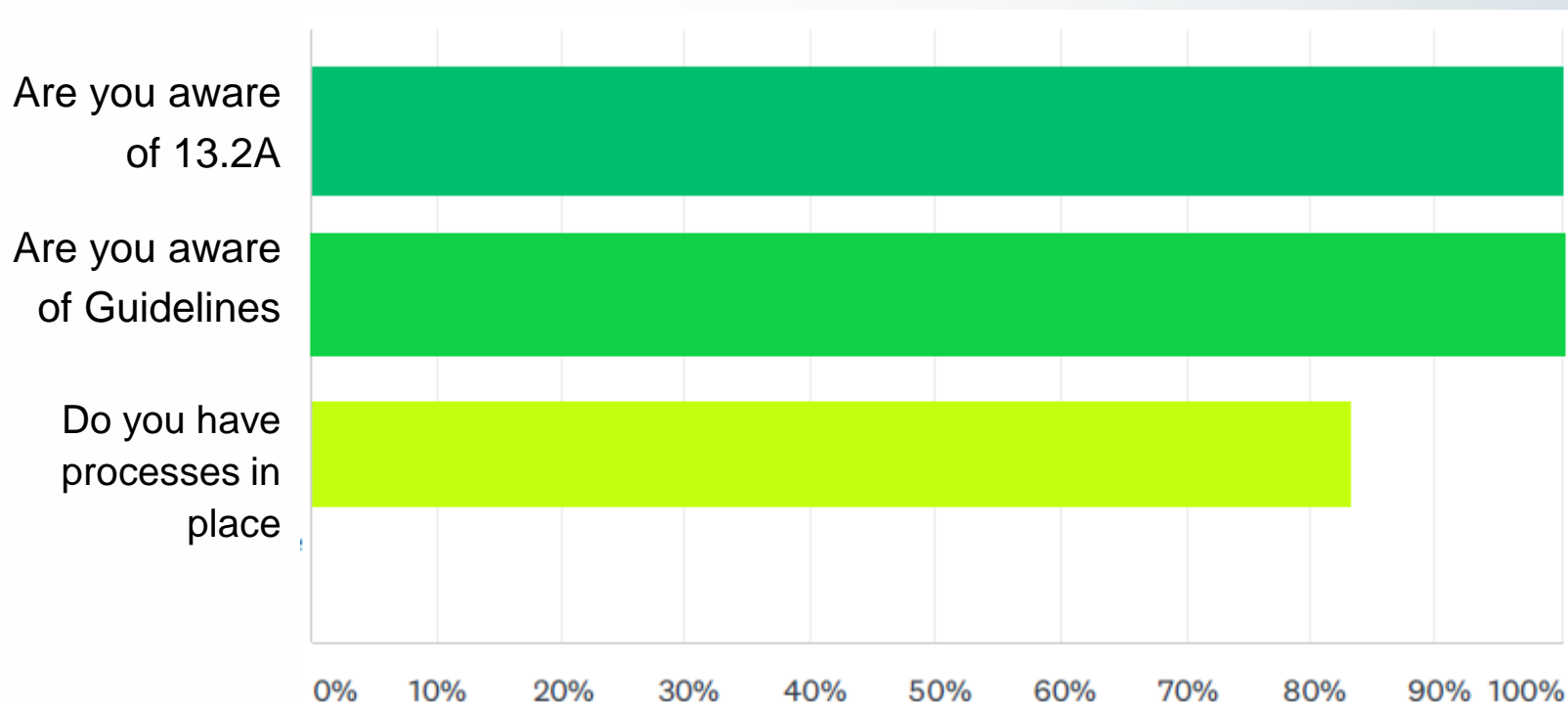
- Aim was to get feedback on the next level down of detail on our proposals from participants in preparation for this briefing
- We will wait for formal submissions to come in before further developing proposals
- 11 respondents (out of 36)

Summary of results:

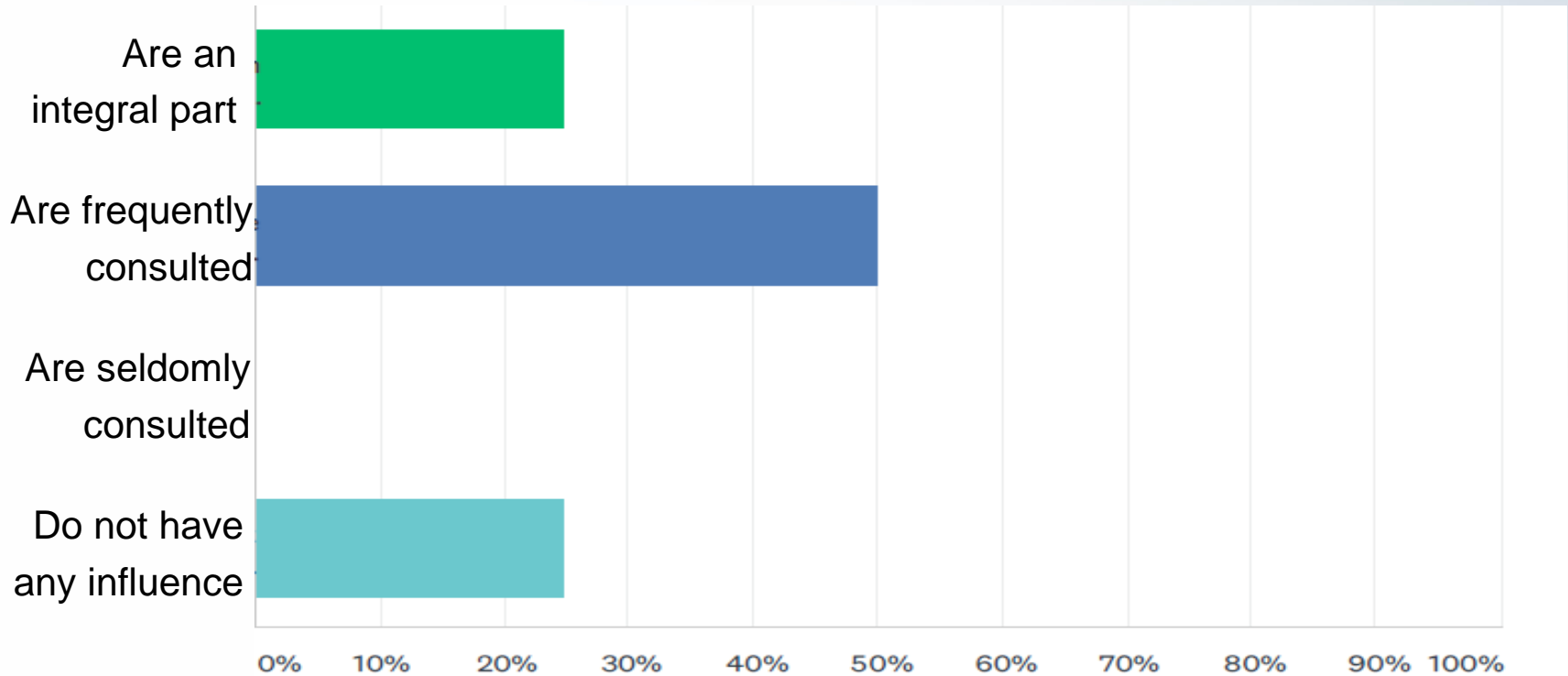
- Respondents are aware of the disclosure provision, have disclosure processes in place and use the Guidance document
- Respondents are supportive of improvements to the Guidelines (proposal 2)
- Respondents are supportive of more educational material on thermal fuels (proposal 3)
- Respondents are supportive of a centralised disclosure website (proposal 4)
 - Different opinions on the most appropriate location

Good awareness of guidelines

Participants have process for disclosure

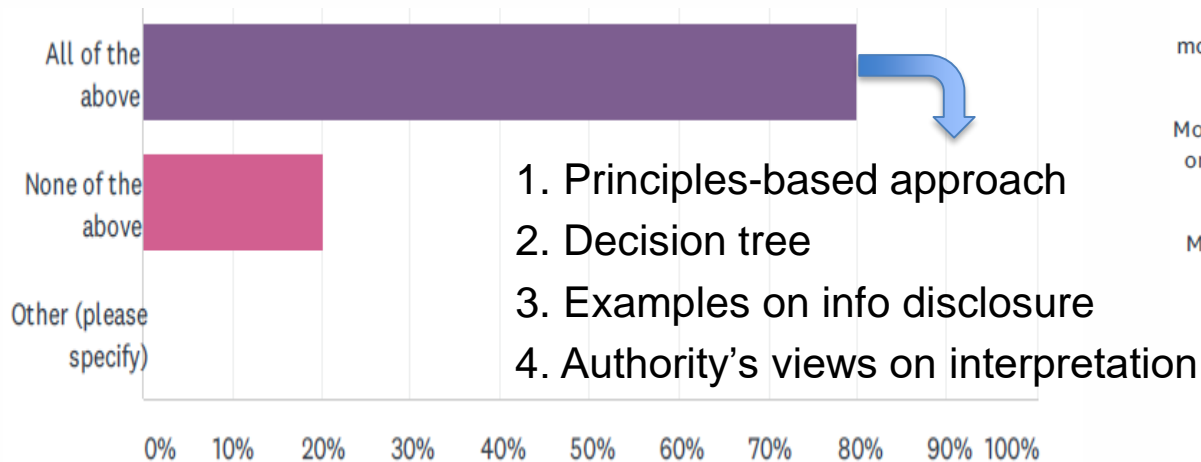


Guidelines influence disclosure processes

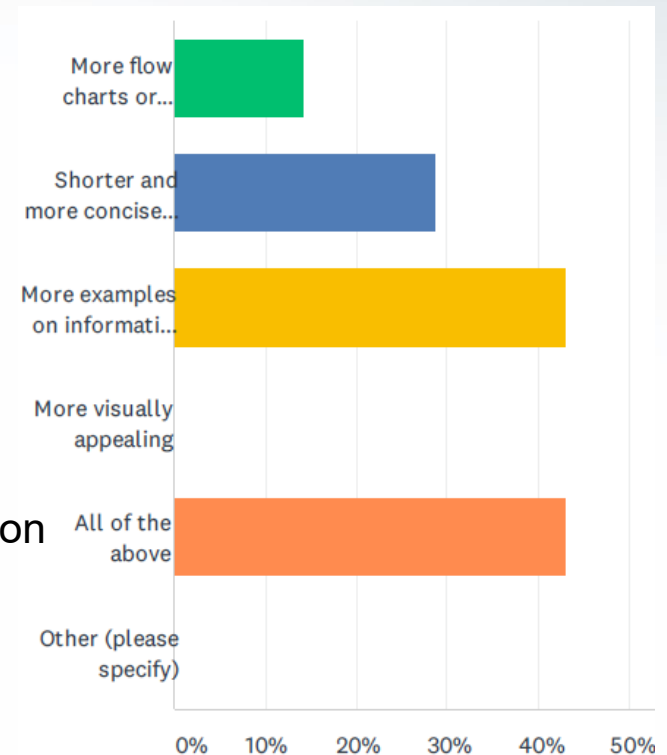


Respondents were supportive of improvements to the Guidelines

What respondents like from guidelines:

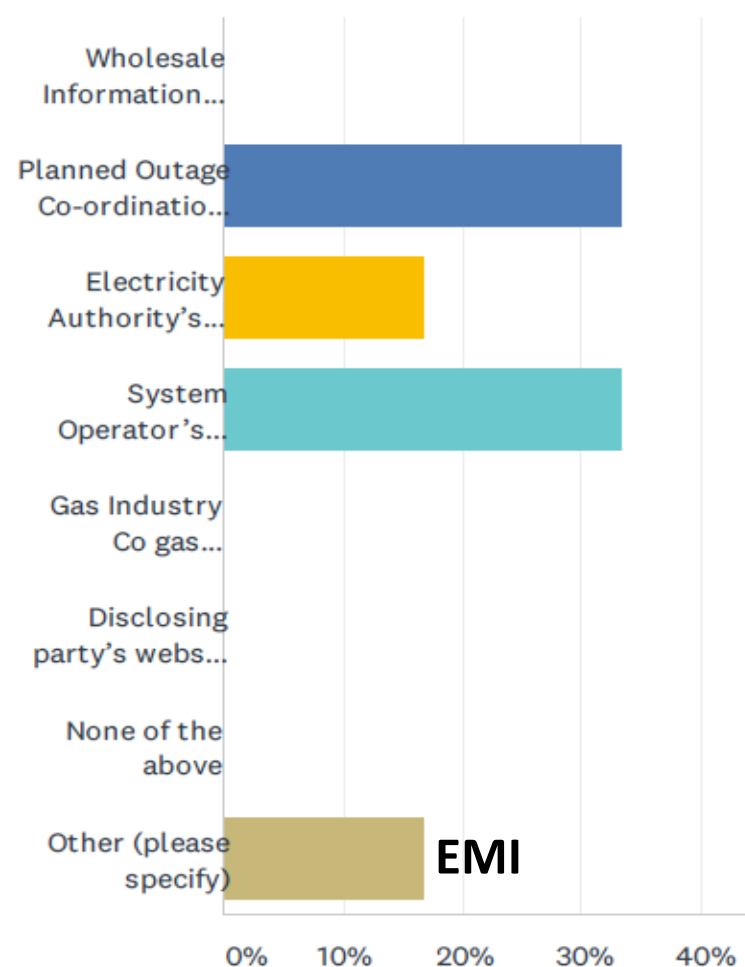
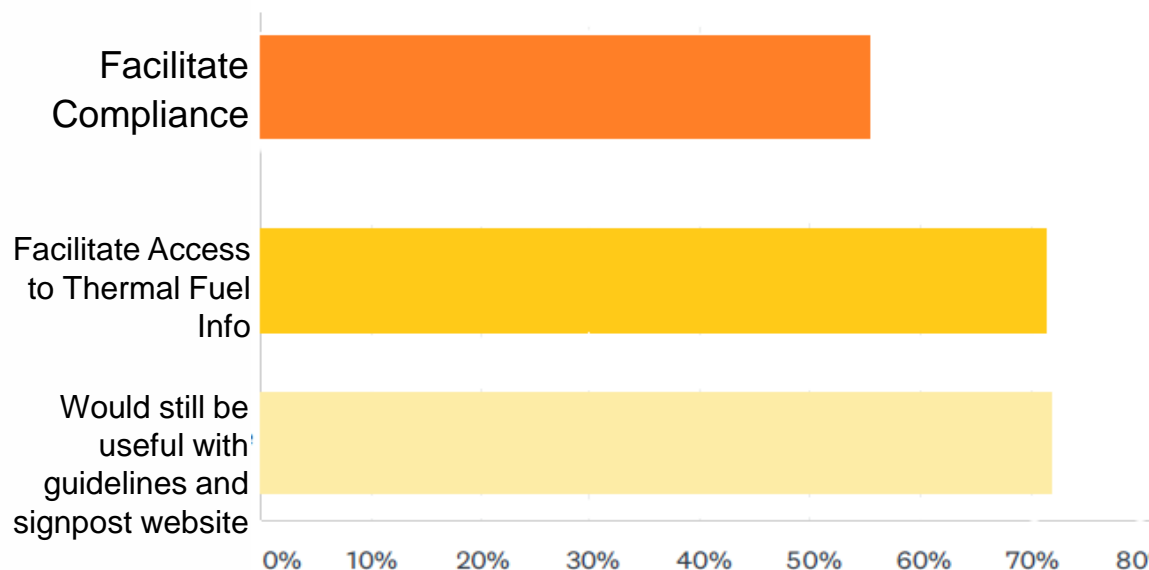


What respondents want more of:



Respondents were supportive of a centralised disclosure website

Where to host?



Part 3b: Proposal to update the guidelines

Why are we proposing to update the guidelines?

- Guidelines provide some clarity on **where, when and how** participants should disclose information.
- But could be easier to follow and to apply in practice.
- We want to add detail (scenarios) to the guidelines to illustrate situations where disclosure is warranted.
- Focused on different situations where coal and gas supply could impact the availability of electricity generation.

Aim is to facilitate – as much as possible – timely decision making on information disclosure

What could these scenarios look like?

Scenario 1: A generator's coal stockpile is running low and unless hydrological conditions don't improve, demand may be unmet in peak hours.

Scenario 2: A major gas generator has difficulties in sourcing fuel due to a reported planned gas outage. If it does not manage to source an alternative gas supply, it would reduce its offer capacity by a substantial amount.

Scenario 3: A gas generator procures part of its gas from the SPOT market when gas prices are favourable. When it doesn't secure the gas on time, or when it opts not to buy because gas prices are high, it raises its offer prices during peak hours.

Legal status of the guidelines

- Guidelines assist participants to understand and comply with their Code obligations.
- Compliance with guidelines is not mandatory unless stated in the Code, but:
 - They complement Code obligations by reflecting the Authority's interpretation of the Code at the time of publication.
 - They may be drawn on as an interpretative source in assessing Code breaches.
 - Onus is on participants to show how any different interpretation complies with the Code.
- In the current context, the Guidelines will create expectations around what is acceptable disclosure behaviour.

We will consult on the updated guidelines

- We will take note of your feedback during today's briefing and your submissions on the Consultation paper (closing on 1st September).
- We will hold a workshop to flesh out the scenarios on thermal fuel info disclosure (if this goes ahead).
- We will issue the updated guidelines for a two-week consultation period.

Part 4: Update from Gas Industry Co

Thank you for attending

Please send in submissions by **01 September 2020**

Any questions: WMID@ea.govt.nz