

24 April 2019

Andrew Knight
Gas Industry Company
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Sent via email: andrew.knight@gasindustry.co.nz

Dear Andrew

Options for information disclosure in the wholesale gas sector

First Gas Limited welcomes the opportunity to make a submission to the Gas Industry Company (GIC) on the “*Options paper for information disclosure in the wholesale gas sector*”. We are also making this submission on behalf of Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns the Ahuroa Gas Storage facility (Flex Gas)¹ and Rockgas.

We support the provision of sufficient information to enable good decisions in the gas market. Our submission focuses on:

- Our view of the problem definition that the main information gaps relate to planned and unplanned outages at major gas production and user facilities;
- Our role as the system operator for gas transmission and the importance of timely information when undertaking this role;
- The role that the Ahuroa gas storage facility plays and how information on this facility could support the gas market;
- How our new transmission access commercial operations system (TACOS) under the Gas Transmission Access Code (GTAC) could support greater information disclosure; and
- The need for a regulatory solution. We have reservations about the effectiveness of a voluntary solution, seeing it at best as a placeholder until a regulated option can be put in place.

Our responses to selected consultation questions are provided in **Attachment 1**.

Our view of the problem definition

First Gas considers that the main information gaps in the gas market relate 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.

The current reliance on bilateral contract notifications supplemented by voluntary disclosures has been shown to be inadequate, and First Gas would prefer to see a greater level of disclosure embedded in regulation. In the process of developing the GTAC, we tried (in consultation with industry) to increase the publication of outage information.

¹ Information on Flex Gas is available on <https://flexgas.co.nz/>

The December 2017 draft GTAC contained provisions requiring interconnected parties (producers and major gas users) to disclose the reason for, and likely duration, of any outage and the extent of the expected reduction in the injection or take of gas.² We ultimately agreed with stakeholders that regulation is a more appropriate tool to facilitate and enforce common information requirements.³

We consider that the other possible information problems identified in the options paper (market prices and volumes and forecast production volumes) are less material and could be better addressed through other means. For example, electricity system impacts of gas availability would be best addressed by increasing the disclosure requirements placed on thermal generators. Transpower has investigated this option as part of its recent review of the Hydro Risk Curves (HRCs).⁴ First Gas has also been working with Transpower to improve information provision across gas and electricity system operations.

Use and provision of information by First Gas as system operator

As the system operator of the gas transmission network, First Gas enables producers and shippers to efficiently transport gas from Taranaki to customers across the North Island. In undertaking this role, we are strongly focused on ensuring enough information is readily available to support our security of supply requirements (as set out in Appendix G of our Transmission Asset Management Plan).⁵

Under the GTAC access agreements coming into force from 1 October 2019, both upstream and downstream participants must provide outage information to First Gas (see section 3.5 of Receipt Point interconnection agreement and section 3.7 of Delivery Point interconnection agreements). Planned interruption information is to be provided to First Gas at least 20 business days before the event,⁶ and unplanned interruption information is supplied and updated as it is available.

We consider that the information provided to First Gas under the new GTAC arrangements will improve our ability to operate the gas transmission network in a safe and reliable manner. However, as noted above, we do think that additional information should be made available to market participants (rather than just to First Gas as system operator).

Information disclosure by First Gas

First Gas publicly discloses a significant amount of information on our network assets and how they are operated and maintained. As a regulated business⁷ under Part 4 of the Commerce Act 1986, we are required to:

- Publish an annual Asset Management Plan (AMP) that describes planned capital maintenance activities for the coming year, any interruptions to supply resulting from this work, and information on asset condition; and
- Publish a set of Information Disclosure (ID) schedules that includes information on network reliability and integrity; and
- Publish annual compliance statements that outline our compliance with quality standards set through our Default Price-Quality Path (DPP).

All these regulatory documents are available on the regulatory pages of our website.⁸ We must also maintain notification obligations under our commercial access agreements. Where First Gas has a planned interruption, we advise the industry and regulators through our asset management plans (AMPs) and proactive communication with suppliers, shippers and major gas users.

Late last year First Gas undertook a planned interruption on the Maui pipeline at Pariroa.⁹ During the period leading into the interruption and during the outage period itself, First Gas provided regular updates to the industry and regulators. We undertake a similar process during unplanned events. If events occur that could potentially affect gas supply, we maintain communication with industry

² Gas Transmission Access Code, December 2017, Section 7.13(g). Available here: <https://www.gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/gtac-phase-1-assessment/8-december-2017-gtac-package/>

³ Page 10, *GTAC Stakeholder consultation: Guide to 2018 changes*, First Gas Limited, 12 September 2018.

⁴ See <https://www.transpower.co.nz/system-operator/security-supply/hydro-risk-curves>

⁵ See <https://firstgas.co.nz/wp-content/uploads/First-Gas-Gas-Transmission-AMP-2018-Appendices.pdf>

⁶ This standard is for parties signing up to new interconnection agreements under the GTAC. Existing interconnection agreements may have different standards.

⁷ Both First Gas' transmission and distribution businesses are regulated by the Commerce Commission.

⁸ Transmission business information is here: <https://firstgas.co.nz/about-us/regulatory/transmission/>. Distribution business information is available here: <https://firstgas.co.nz/about-us/regulatory/distribution/>

⁹ Information on the Pariroa works is available on our website <https://firstgas.co.nz/media-release/pariroa-bypass-reconnection-timing/>

participants and the Critical Contingency Operator (CCO). The information we provide is specified in our Critical Contingency Management Plan (CCMP).

Use of Ahuroa Gas Storage to enhance security of supply

GSNZ owns the underground gas storage facility at Ahuroa in Taranaki that stores gas on behalf of customers (trading as Flex Gas). This storage facility can be used to minimise the impact of planned interruptions on the gas network and already supports the provision of gas for electricity generation.

We believe that with GSNZ ownership, there is now a wider opportunity for users to contract to use the field. This wider pool includes First Gas, in our role as the transmission system owner. The benefit of contracting with other parties was illustrated during the Pariroa outage. For this work, First Gas' transmission business contracted with Flex Gas on an arms-length basis to use the Ahuroa storage facility to manage pipeline pressures around the planned outage.

GSNZ does not currently publish the availability of uncontracted Ahuroa storage capacity, and we are not able to disclose contracted capacity and availability due to contractual constraints. We would be willing to seek the consent of existing and future users of the facility, if the GIC considered that this information is important to the effective functioning of the gas market. Alternatively, users of Ahuroa could supply this information directly. We would welcome further discussion on Ahuroa information.

Use of GTAC public website to support information disclosure

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.

Supporting role of GTAC public website

We agree that the new GTAC public website supported by TACOS could support greater information disclosure in the gas sector. TACOS¹⁰ is already being developed to support information requirements under the GTAC, including information on plant outages. The system will hold planned outage information and will be updated in real-time for any unplanned events. Planned interruptions by suppliers and shippers must be loaded into TACOS 20 business days prior to the event for those parties on new interconnection agreements. This information could be displayed on the GTAC public website linked to TACOS, if an information disclosure regime was in place.

We believe that it would be more efficient for the industry to provide the information once rather than enter it into TACOS and subsequently onto another site. This information could be extracted by the GIC or the Planned Outage Co-ordination Process (POCP) site.

GTAC is not a substitute for a regulated disclosure scheme

During the GIC workshop on this consultation paper,¹¹ a suggestion was made that a change request to the GTAC could be an avenue to enact a disclosure regime without the need for regulation. We consider that this would be an unsuitable alternative to regulation because:

- It would put First Gas in the position of regulating industry disclosure, without any ability to use regulatory powers to enforce compliance;
- The only remedies available for non-compliance would be through the courts, which would be a costly way to address any parties that do not comply; and
- It would add significant costs to First Gas operations that it may not be efficient for us to bear. The recovery of these costs under our price-quality path would need to be explored.

We therefore believe that the GTAC is not a substitute for a regulated disclosure scheme, and changes to the GTAC for this would be difficult to implement.

¹⁰ TACOS will replace OATIS from 1 October 2019.

¹¹ Held on 27 March 2019.

First Gas supports a prescriptive regulatory solution

First Gas supports the introduction of a prescriptive regulatory solution for information disclosure in the gas market. This is our preferred approach because it:

- Makes all participants subject to the same requirements, removing the risk of parties withholding information that would apply under a voluntary approach; and
- Can be supported by enforcement action where a party does not provide information in an accurate or timely way.

We believe that a voluntary disclosure regime would be unlikely to work since it does not have these features. A voluntary approach would fail if one or more parties opted out, since those parties would gain an advantage. It is also unclear who would enforce the rules agreed under a voluntary approach. To some extent this explains why we could not resolve information disclosure issues in the GTAC development process.

The options paper has highlighted the view from many industry participants that they are prevented by contractual terms from disclosing the level of information the industry may need. We see this more of a problem of agency under contracts and ability to get partners/customers aligned on disclosure of confidential information. This can be overcome by a regulated solution.

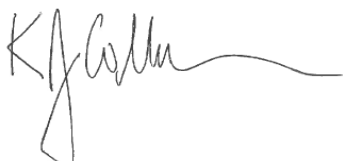
Timeframe for progressing a regime

First Gas is concerned with the timeframe required to bring in a regulated option, as amendments are required to the Gas Act. If the timeframe cannot be shortened, we would encourage the GIC to develop and implement a voluntary prescriptive option that would align with the proposed regulated option. This would provide industry participants with time to identify how they can meet the information requirements. The GIC could also monitor and report on the uptake of the option, placing pressure on industry participants to seek to partake.

Contact details

If you have any questions regarding this submission, please contact me on 027 472 7798 or via email at karen.collins@firstgas.co.nz.

Yours sincerely



Karen Collins
Regulatory Policy Manager

ATTACHMENT 1: RESPONSES TO CONSULTATION QUESTIONS

Question		Comment
Q1:	Should shippers be included in an information regime? If so, what information do you consider should be disclosed?	<p>The inclusion of shippers in the information disclosure regime is dependent on the approach GIC decides upon to obtain disclosures:</p> <ul style="list-style-type: none"> • If disclosure is made via <i>regulated</i> option, then just the producers and users of gas (i.e. not shippers) can be subject to the regime; or • If information disclosure is undertaken <i>voluntary</i> and via existing contracts (ICAs), then shippers may need to be part of the regime. Not all interconnected points are subject to ICAs (e.g. some major gas users do not currently have ICAs). While First Gas is working with customers to get ICAs in place, this may take some time.
Q2:	Is the information currently disclosed by the transmission pipeline operator sufficient? If not, what further information should be released through information disclosure arrangements?	<p>We welcome a discussion on what further information participants need and we do not already provide.</p> <p>As noted in our cover letter, there is a considerable amount of information we are required to publicly disclose under Part 4 of the Commerce Act. We also disclose information around interruptions on the OATIS system (to be replaced by TACOS from 1 October 2019). Industry participants are updated if there is risk of curtailment or an interruption to supply. If the event is more significant, the Critical Contingency Manager is informed and monitors progress and risk to linepack.</p> <p>First Gas also works closely with all participants during any event, whether planned or unplanned. This was demonstrated during the recent planned interruption at Pariroa, where participants were provided with information leading into, and throughout the interruption. Regulators and many participants advised the information we provided was very helpful and sufficient.</p>
Q5:	What processes does your organisation have to obtain information ahead of, and during, periods of reduced gas supply?	<p>In our role as system operator, we must maintain a consistent line pressure and therefore linepack. We receive information in the form of daily nominations for gas supply. Under the transmission network access agreements First Gas, also receives information on planned and unplanned events.</p> <p>If the event is unplanned, the participants communicate with our operations centre and the industry responds to manage the linepack. This may be curtailments under section 15.2 of the MPOC, or it may necessitate intervention by the critical contingency operator. Equivalent provisions for notification of unplanned outages are provided for in section 3.7 of new interconnection agreements under the GTAC.</p>
Q6:	How is your organisation impacted during periods of reduced gas supply? Please provide details (including costs) and any examples in your response.	<p>As system operator, First Gas is prepared to react to periods of reduced gas supply. In most circumstances this does not add significantly extra costs.</p> <p>First Gas Operations team works with participants and where necessary, the Critical Contingency Manager in</p>

Question		Comment
		<p>periods of reduced supply. Our operations team is in frequent contact with all participants as reduced supply may result in curtailments, or in a severe instance, a critical contingency. Liaising with participants and managing the network may result in extra personnel being called into work.</p> <p>During periods of reduced gas supply, there may be a requirement to purchase balancing gas from the market. In a period of reduced supply, this cost is likely to be higher than average. This cost is a recoverable cost under Part 4 regulation and therefore, is passed on to our customers.</p>
Q7:	<p>What steps does your organisation's risk assessment or business continuity plan expect to be undertaken to limit the impact of periods of reduced gas supply?</p>	<p>First Gas follows the approved Gas Transmission System Security Standard, as set out in Appendix G of our Transmission Asset Management Plan).¹² This standard defines the minimum level of system security and transmission system performance to be applied in the operation and development of the First Gas transmission system, under all reasonably anticipated operating conditions.</p> <p>We also have a Critical Contingency Management Plan (CCMP) which sets out our obligations as a Transmission System Owner (TSO) under the <i>Gas Governance (Critical Contingency Management) Regulations 2008</i> and amendments (the Regulations).¹³</p>
Q10:	<p>Have the potential information problems in the wholesale gas market been identified appropriately? Have we missed aspects of the problem or are there parts of the identified problem that we have not described correctly? Please provide details and any examples in your response.</p>	<p>Yes. As noted in our cover letter, we believe the main information gaps relate to planned and unplanned outages at production and major gas user facilities.</p>
Q11:	<p>Have the potential information transparency and availability issues in the wholesale gas sector been analysed appropriately against the Gas Act and GPS objectives? Are there elements of the analysis that have been missed or parts of problem that have not been analysed properly? Please explain your reasoning.</p>	<p>First Gas recognises that participants may be unable to provide any further information. Commercial contracts may prevent greater disclosure without agreement from both parties. If it is determined more information is required, it may necessitate a regulatory framework for disclosure.</p>
Q14:	<p>Do you agree with the advantages that have been identified for the option? Have any other advantages been missed or are there advantages that have been listed that mischaracterised?</p>	<p>We agree that a voluntary solution has advantages of being relatively low cost and potentially easy to implement.</p>

¹² See <https://firstgas.co.nz/wp-content/uploads/First-Gas-Gas-Transmission-AMP-2018-Appendices.pdf>

¹³ <http://www.cco.org.nz/Publications/>

Question	Comment
<p>Q15: Do you agree with the disadvantages that have been identified for the option? Have any other disadvantages been missed or are there disadvantages that have been listed that are mischaracterised?</p>	<p>We agree that a voluntary solution is not pragmatic if parties can't agree to the disclosure requirements. We understand that some contracts may prevent participants from providing information.</p> <p>If it is determined that further information is required from industry participants, a regulated approach to disclosure may be required to overcome information constraints.</p>
<p>Q16: Given the advantages and disadvantages, do you consider that that voluntary disclosure option is a viable option? Please provide the reasoning behind your answer, including details and any examples.</p>	<p>As noted in our cover letter, we have reservations about the viability and effectiveness of a voluntary disclosure regime. As noted in the paper, agreement on greater information disclosure was unable to be achieved through the GTAC consultation process. There are also several disadvantages with a voluntary approach.</p> <p>However, with the credible threat of regulation, there may be greater industry appetite to explore a voluntary option.</p>
<p>Q17: Has the principles-based information disclosure option been identified appropriately? Are there alternative versions of the option that are worthy of consideration? Please provide reasons in your response.</p>	<p>We agree the principles-based information disclosure requirements have been identified appropriately.</p>
<p>Q18: Do you agree with the advantages that have been identified for the option? Have any other advantages been missed or are there advantages that have been listed that mischaracterised?</p>	<p>We agree with the advantages identified for the principles-based option. We agree a solution based on outputs is pragmatic.</p>
<p>Q19: Do you agree with the disadvantages that have been identified for the option? Have any other disadvantages been missed or are there disadvantages that have been listed that are mischaracterised?</p>	<p>We agree with the disadvantages identified. Once the exact disclosure requirements are determined, guidelines on disclosure should adequately support a principles-based approach.</p>
<p>Q21: Has the specific information disclosure option been identified appropriately? Are there alternative versions of the option that are worthy of consideration? Please provide reasons in your response.</p>	<p>We agree the specific disclosure option has been specified appropriately as a rules-based approach.</p>
<p>Q22: Do you agree with the advantages that have been identified for the option? Have any other advantages been missed or are there advantages that have been listed that are mischaracterised?</p>	<p>We agree the advantage is that any disclosure requirements are well defined. Well defined requirements should mean reporting consistency.</p>
<p>Q24: Have the implementation issues associated with the information disclosure options been</p>	<p>We agree with the implementation issues highlighted, and the advantages listed.</p>

Question	Comment
<p>Q25: Do you think that principles-based information disclosure based on industry-led arrangements is a viable option? Please provide the reasoning behind your answer.</p>	<p>Voluntary disclosure is a viable option in the short-term, if the regulated option requires considerable time to establish. A voluntary regime could be introduced as a “placeholder” and precursor to the regulated option.</p> <p>The greatest issue with an industry-led or voluntary approach is if some parties cannot or will not participate. Contractual concerns may prevent participation and will not be resolved without regulatory pressure.</p>
<p>Q28: Should there be a minimum threshold? If so, what should it be and what should it be based on (e.g. nameplate capacity, X GJ/day)? Should the minimum threshold be the same for all types of market participants or should it vary between market segments? Please provide details.</p>	<p>We agree that a minimum size threshold for disclosure obligations is appropriate. As the system operator, our focus is on reliability and security of supply. We acknowledge that changes in gas supply or demand at “small” facilities are unlikely to have an impact on the effectiveness of our operation.</p>
<p>Q30: Are there any other information disclosure rules that should be considered? Please provide details in your answer including the rationale for your proposed rules.</p>	<p>The information disclosure rules should focus on the needs of this industry. There are currently various disclosures made and if they are fit for purpose, there is no need to replicate the requirement.</p> <p>For example, First Gas completes an annual information disclosure for the Commerce Commission. This is historic information. We also publish our annual asset management plan. This is a forward-looking document and the summary will provide information on plans for the following year.</p> <p>Gas Services New Zealand completes annual disclosures to NZPAM around the storage at its Ahuroa storage facility.</p>
<p>Q31: Has this planned outage disclosure option been identified appropriately? Are there alternative versions of the option that are worthy of consideration? Please provide reasons in your response.</p>	<p>The planned outage disclosure has been identified appropriately to meet our needs for information.</p> <p>A twelve-month outlook would assist the industry in planning. It would be essential that participants update the outlook as they gained better information and finalised the outage plan.</p>
<p>Q32: Do you agree with the advantages that have been identified for the planned outage disclosure option? Have any other advantages been missed or are there advantages that have been listed that are mischaracterised?</p>	<p>We agree that the disclosure of planned information will assist participants in the industry. The information may help the wholesale market and allow participants to schedule maintenance to minimise the impact of interruptions on their business.</p> <p>The options paper considers planned interruption information could assist Transpower with monitoring security of supply and their outage planning. We consider it should assist all participants with their own outage planning.</p>

Question		Comment
Q33:	Do you agree with the disadvantages that have been identified for the planned outage disclosure option? Have any other disadvantages been missed or are there disadvantages that have been listed that are mischaracterised?	We agree with the disadvantages listed. We would be interested in further discussion on the costs of compliance.
Q35:	Has this unplanned outage disclosure option been identified appropriately? Are there alternative versions of the option that are worthy of consideration? Please provide reasons in your response.	<p>We agree that the information should include the name of the facility, outage period, name plate capacity, capacity reduction and a comment on the nature of the outage. Most of this information is currently provided on OATIS and will also be provided on TACOS from 1 October 2019.</p> <p>We note that the Commerce Commission has set definitions for both planned and unplanned interruptions.¹⁴ It would be useful to consider how these definitions can be adopted or modified for this information disclosure regime.</p>
Q36:	Do you agree with the advantages that have been identified for the unplanned outage disclosure option? Have any other advantages been missed or are there advantages that have been listed that are mischaracterised?	We agree that the disclosure of any outage information would be a useful input to all participants.

¹⁴ See *Gas Transmission Information Disclosure Determination 2012* (consolidating all amendments as at 3 April 2018), Commerce Commission. https://comcom.govt.nz/data/assets/pdf_file/0026/78803/Gas-Transmission-information-disclosure-determination-2012-consolidated-3-April-2018.pdf