

24<sup>th</sup> July 2020

To: Andrew Knight

Gas Industry Company

PO Box 10-646

Wellington 6143

via email: [info@gasindustry.co.nz](mailto:info@gasindustry.co.nz)

Dear Andrew,

**RE: Statement of Proposal for amending CCM Regulations**

Thank you for the opportunity to submit on the GIC's Statement of Proposal for amending the CCM Regulations.

We have focused our response solely on Question 3 of the consultation paper.

Yours sincerely,



Quintin Tahau  
General Manager  
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**Critical contingency submission emsTradePoint Limited**

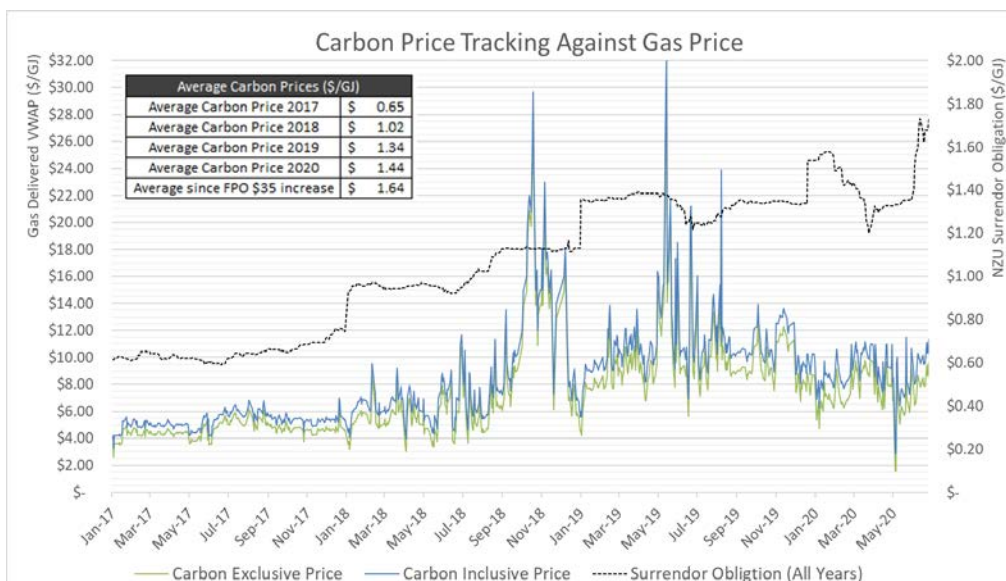
**Q3 - Do you agree with adding a floor price to the calculation of the contingency price? Do you agree with the proposed calculation method, using VWAP for the 7 days prior to and including the critical contingency day?**

emsTradePoint Limited agree with adding a floor price to the calculation of the contingency price.

Overall, we support the use of emsTradePoint’s Volume Weighted Average Price (VWAP) as a floor price in a critical contingency event, but we think that the price calculation method needs to consider the following factors.

1. The graphs included in the consultation document differentiate between market and off-market trades. It is unclear why this differentiation has been made in the analysis. If the differentiation is deliberate, explaining why would be helpful.
2. Gas prices on emsTradePoint are carbon inclusive, this may not be the case in bi-lateral contracts. The carbon component takes the closing price of NZUs on a day and converts it into GJ using the MBIE natural gas emissions factor. The graph below shows the emsTradePoint Daily Delivered VWAP with and without the carbon component. This differential has been increasing as carbon prices have been on the rise. The graph also tracks the increase in the carbon price in \$/GJ equivalent. The step-ups each year are subject to changes in the surrender obligation % (now at 100%) and the emissions factor which changes each year.

emsTradePoint suggests this carbon component element of the gas price is considered if the emsTradePoint price is used for calculating a floor price in a CCM event.



3. emsTradePoint live prices (VWAP and Indices) are only available to Participants on the exchange and are not public. Although we do publish lagged price and volume data on our public website, we believe live data will remain behind our subscription model. We therefore suggest that in a Critical Contingency event the relevant price is published on the emsTradePoint public website, the regulator's website, or the Critical Contingency Operator website so it is available industry-wide for that day.
4. As highlighted in the consultation document, volume going through emsTradePoint can often be 'peaky'. There may be days where no volume is traded through emsTradePoint. emsTradePoint agrees the floor price should use the average VWAP of seven days leading to and including the event. This would account for either a lack of volume, or anomalous prices.

Here is the link to the emsTradePoint indices calculation methodology.

[https://www.emstradePoint.co.nz/documents/49/etp\\_Indices\\_Calculation\\_Methodology.pdf](https://www.emstradePoint.co.nz/documents/49/etp_Indices_Calculation_Methodology.pdf)

From a price perspective, it has been observed that the emsTradePoint VWAP may not be fully representative of market conditions, this is predominantly due to the fact the Gas System Operator (SO) uses the spot market to buy and sell for pipeline balancing purposes. In this case the SO is often a price taker, pushing prices up or down depending if they are a net seller or net buyer.

emsTradePoint notes that these peaks and troughs in prices are beneficial in setting a floor price. The market still captures the value of scarcity. The contingency price floor therefore needs to be reflective of that scarcity.