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Submissions  
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**Re: Cross-submission on UTS preliminary decision**

Nova Energy has reviewed the submissions made by Meridian Energy and Contact Energy in respect of the UTS preliminary decision.

Given Meridian and Contact's description of the flood conditions and operating constraints giving rise to their generation offers over the period in question, Nova cannot assert there was a UTS.

Nova suggests that the Authority investigate how resource consents under the Resource Management Act may be impacting on the electricity spot market. The Authority should perhaps take a position to ensure that regional hydro operating conditions do not impose unnecessary constraints on South Island (SI) hydro generation overall. With increased northward power-flows expected once the Tiwai smelter closes, it is important that there is adequate generation flexibility in the SI to respond to changes in demand, even under such extreme hydro inflows.

Nova supports Energy Link's perspective<sup>1</sup> that even in circumstances where spill is necessary, hydro offers should not necessarily equal the SRMC of hydro generation. Responsible management of hydro storage requires balancing water usage between the potential outcomes of flood or shortage. If spill was to always equate to zero profit, then the hydro generators' average optimal storage would be commensurately lower than it would be if flood conditions still provided some return. Lower average storage levels would not be a positive outcome of the UTS claim.

Nova disagrees with Meridian's view that because most market participants were close to fully hedged, that the electricity spot prices in December 2019 do not impact on consumers<sup>2</sup>. The individual hedge position of other participants should be an irrelevant consideration in this matter or in any consideration as to standards of trading conduct. When retailers and major users' contract to cover their spot price risk they refer to historical prices and the ASX forward price curve as a guide to CfD pricing. These are directly impacted by the December 2019 spot prices, and as such will be higher than they would otherwise be if flood prices were lower. Meridian benefits directly from higher price expectations, and higher CfD prices can be expected to translate directly into higher retail electricity prices. This point was made clearly in the Market Development Advisory Group's review of the High Standard of Trading Conduct released earlier this year.

Yours sincerely



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<sup>1</sup> Energy Link submission

<sup>2</sup> Meridian submission page 27