

7 October 2021

Paul Baker  
Commercial and Regulatory Manager  
Nova Energy Ltd  
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Dear Paul

**Review of competition in the wholesale market**

The Authority has been conducting a review into competition in the wholesale market for the period from the Pohokura outage in 2018 until mid-2021 (the Review).

The Authority is intending to publish a Review Paper, which contains the Authority's observations of competition in the wholesale market and draws on multiple sources of information, including information supplied by you under section 46 of the Electricity Industry Act 2010 (the Act). The Review Paper will be accompanied by an Issues Paper which explores some possible policy options to address certain observations. Both papers are being released for public consultation and feedback to inform possible further action.

Prior to publication the Authority wants to test certain facts supplied by you for accuracy and comment. This fact checking exercise is limited to selected extracts from the papers; it is not an opportunity for pre-consultation nor advance engagement of the Review's observations or preliminary policy option set.

As such, the Authority is undertaking fact checking by supplying you with limited extracts (below) from the Review paper which summarises information provided by you under section 46 of the Act. As a first step, please check each extract for factual accuracy and let the Authority know any comments you have.

Secondly, and notwithstanding the basis on which the information was provided, the Authority now considers that it is necessary to publish the information contained in the below extracts in a paper for public consultation. The Authority considers that the information is not confidential and/or that publication of that information is required to enable the Authority to fulfil its statutory functions (and as outlined in the Authority's Information Gathering Guidelines). Please let me know if you have any objections to publication, and your reasons for that, in respect of each extract. The Authority will consider any objections and inform you of its final views prior to publication. This could include the Authority electing to proceed with publication of the material with or without redactions.

The extracts are as follows:

*Section 2*

*We also obtained information on gas supply agreements (GSAs). This data shows that GSA VWAPs are similar to the EMS Tradepoint gas spot price VWAP. Analysis of this data gives us confidence that the EMS Tradepoint VWAP that we have used in our analysis is a good proxy for the cost of fuel for gas generators. We also think that this suggests the EMS Tradepoint VWAP might be a good indicator of expectations of gas supply risk, given the opportunity to store gas at Ahuroa. However, we still cannot conclude definitively that gas supply risk (or indeed, some other underlying condition that we have missed from the regression analysis) is not contributing to the sustained upwards shift in prices indicated by the significant dummy variable. Linear regression analysis is an imperfect approximation of the interactions which occur between supply and demand in the electricity market. However, our concern about not representing gas supply risk adequately has been somewhat allayed.*

*Section 5*

*We also obtained information on GSAs and found that the gas spot price appears to be very similar to VWAPs based on these GSAs.<sup>[1]</sup> We are therefore confident that the gas spot price is a good indicator of the cost of fuel, and also of gas supply risk.*

*Footnote: We have not adjusted for escalation, inflation or location in calculating these VWAPs.*

Please respond with all comments and objections no later than 12pm on 8 October.

Yours sincerely



PP

**Andrew Doube**  
**General Manager Market Policy**