

7 October 2021

Chris Abbott
Head of Regulatory & Government Relations
Contact Energy
Email: chris.abbott@contactenergy.co.nz

Dear Chris

Review of competition in the wholesale market

Thank you for your response to the Electricity Authority's recent fact checking process to support the *Market Monitoring Review of structure, conduct and performance in the wholesale market* and associated Issues paper. I appreciate your team's efforts to respond to the fact checking request, as well as its engagement in relation to information requests so far.

The Authority has reflected on Contact's suggested change regarding the use of water values on the Clutha scheme, as outlined in your email dated 27 September.

Thank you also for providing information on Contact's gas supply agreements (GSAs). Below are extracts we intend to publish as part of the Review in relation to the GSAs.

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.^[1] 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.

Notwithstanding the basis on which the information was provided, the Authority now considers that it is necessary to publish the information contained in the above extracts in a paper for public consultation. The Authority considers that the information in the above extract is not confidential and/or that publication of this information is required to enable the Authority to fulfil its statutory functions (and as outlined in the Authority's Information Gathering Guidelines).

However, as part of our fact checking exercise, can you please advise me whether Contact has any comments on the above extracts, or any objections to the extracts being published 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.

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

Yours sincerely

A handwritten signature in blue ink, appearing to be 'AM' with a large loop underneath.

PP:

Andrew Doube
General Manager Market Policy