

Security of supply improves but prices remain high and volatile

Through May we have seen practical examples of market participants innovating under stressed market conditions to find market solutions. As a result, and with recent rainfall, the risk of supply shortfalls for the balance of this year has receded.

- NZAS and Meridian have agreed to extend the load reduction agreement first announced on 28 April.
- Genesis has contracted additional gas from Greymouth Petroleum.
- Genesis and Methanex have agreed to a gas supply arrangement for between 3.4PJ – 4.4PJ over winter to support security of supply for the country's electricity system.

The above announcements over May are in addition to the previously announced gas tolling agreement in March between Contact Energy and Nova, and the decision in February by Genesis to make the third Rankine unit available to cover drought and gas shortages.

However, it is concerning that reduced risk to security of supply sees increased prices, not the lower prices you would expect to see in a workably competitive market. Spot prices and 3-year futures prices remain elevated and volatile.

- Last week spot prices averaged \$390/MWh for the seven-days at Otahuhu versus \$279/MWh for last seven days four week ago.
- This week 3-year futures starting 1 July at Otahuhu were \$165/MWh versus \$154/MWh four weeks ago.

MEUG welcomes changes to the High Standard of Trading Conduct rules

The Electricity Authority (EA) recently announced the High Standard of Trading Conduct rules are going to be replaced. The improved clarity from the new rules is welcomed as the current rules, introduced in July 2014, have proven difficult to interpret and apply.

The EA's Market Design Advisory Group consulted well in reviewing the current rules and the use of two expert panels was a good innovation that added real value.

MEUG recommended the EA should undertake a post-implementation review, given the need to ensure the new rules do not have unintended consequences or that the incremental compliance costs on suppliers is not worth the long-term benefit to consumers. We are pleased to see the EA agree with this recommendation.

Key dates

What's on	Who	When	Notes for members
Publication: Tabling in the House the Climate Change Commission (CCC) final advice to the Minister	Minister of Climate Change	9 June	CCC submitted its final advice to the Minister on 31 May. The Government must set the first emissions reduction plan by 31 December.
Submission: Levy consultation for commercial Market Making (MM) scheme	Electricity Authority (EA)	22 June	MM decisions announced in August with a detailed decision paper in October 2020. MEUG agrees with the planned implementation. Who pays by way of a levy is the most contentious detail.
MEUG monthly meeting and AGM	MEUG	24 June	Guests to be finalised.
Submission: Gas market settings investigation	Gas Industry Company	24 June	Feedback will assist provide advice to the Minister mid this year on her request in December 2020. Paper has robust and detailed analysis that should assist future decision making for the sector.
Submission: Strategy consultation	Infrastructure Commission	24 June	Feedback will inform draft Infrastructure Strategy for the Minister in September.
Submission: Transport Emissions: Pathways to Net Zero by 2050	Ministry of Transport	25 June	Feedback will be used to inform the first all-of-government Emissions Reduction Plan. Lacks a comparison of options and incremental benefits and costs, compared to primary policy signal of expected increasing Carbon prices.
Commencement: New trading conduct provisions	EA	30 June	Good news as replaces ineffective rules, and EA has agreed with MEUG that a post implementation review be undertaken.