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Wholesale and Supply
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Re: Nova’s feedback on the Electricity Authority’s Choice of gas price data to determine the EAF discussion document

Nova Energy (Nova) appreciates the opportunity to comment on the Electricity Authority’s staff-level discussion document mentioned above. We acknowledge that the Authority is working within a prescriptive statutory framework under section 161FA of the Climate Change Response Act 2002 (CCRA) and related regulations, and that gas price inputs must meet clear legal and practical criteria for estimating thermal generator offer behaviour.

We agree that transparency, robustness, and consistency are essential for allocating emission units to emission-intensive and trade-exposed industries. However, Nova considers that the Authority’s current position—relying solely on EMS spot gas prices as the “only” suitable dataset—raises concerns regarding representativeness, stability, and the risk of distorting Short-Run Marginal Cost (SRMC) estimates used within the EAF model.

Nova’s Key considerations

1. While EMS data is indeed public and timely, EMS spot prices often exhibit marked volatility and thin market conditions, characteristics acknowledged implicitly within the Authority’s comparison with Genesis’s cost-of-gas measures. The discussion document itself notes that EMS prices are “often higher” than reported actual gas purchase costs. In Nova’s view, this volatility creates a systematic upward bias in thermal SRMC estimation—risking an over-statement of ETS pass-through and therefore an inflated EAF.
2. The Authority places considerable weight on the argument that generators respond to opportunity cost, even for gas acquired under bilateral or long-term contracts. Nova accepts this principle in theory, but considers that—under New Zealand’s market structure—the EMS spot price is not always a reliable proxy for the opportunity cost faced by major thermal participants. Reasons include:
 - Limited depth and liquidity on EMS Tradepoint.
 - Gas producers’ bilateral contracting practices that decouple traded spot prices from actual system marginality.
 - The existence of storage, transport, and flexibility constraints that do not reflect through EMS pricing signals.

In this context, using daily EMS prices mechanically in SRMC calculations risks substituting a market artefact for the underlying economic cost conditions the model seeks to replicate.

3. The discussion document cites a correlation between EMS gas prices and Ōtāhuhu electricity spot prices as justification for using EMS as a marginal cost proxy. Correlation, however, is not causation. Spot electricity prices reflect hydrology, demand, network constraints, and inter-fuel substitution—not only SRMC of gas fired generation. A strong correlation is expected during certain periods but is not sufficient evidence that EMS prices are accurate inputs to a counterfactual SRMC model designed for EAF calculations.

4. The Authority concludes that EMS is “the only currently available option” meeting legal requirements. Nova questions this, since MBIE and Stats NZ also publish data and they remain:

- Official, statistically rigorous, and independently governed;
- Representative of broader market conditions;
- Enduring and required by law under the Gas Act 1992.

Nova acknowledges the timeliness constraint relating to the 31 July deadline. However, this does not preclude the Authority from developing hybrid or bridging methodologies, discussed below.

Nova’s suggestions

The EA could consider the following enhancements to meet statutory requirements while improving representativeness and reducing modelling risk:

1. *Develop a weighted or composite gas price index*

A blended input could incorporate:

- EMS spot prices, to capture marginality signals),
- MBIE quarterly industrial gas prices, and
- Stats NZ SPI gas indices, to reflect broader market dynamics).

This would reduce reliance on a single, sometimes illiquid marker while preserving public availability.

2. *Employ temporal smoothing methods*

The EAF reflects an aggregated effect over the preceding year. In Nova’s view, one-day EMS price spikes caused by low trading should not influence the annual SRMC averages. Nova does not see it suitable to allow single-day spikes in EMS prices, caused by sparse trading, to influence annual SRMC averages.

Using rolling averages or volatility smoothing techniques (e.g., 30-day smoothing similar to that shown in Figure 2) would be consistent with the Authority’s own data presentation.

The Authority highlights the importance of liquidity and transparency in gas markets. Continued exclusive reliance on EMS spot pricing—without encouraging or enabling broader data publication—risks reinforcing market opacity rather than improving it.

In conclusion, Nova supports the Authority’s commitment to transparent and robust EAF methodology. However, in Nova’s view, EMS spot gas prices are not the only suitable dataset. Nor do we consider EMS prices on their own a sufficiently reliable proxy for marginal gas costs in a modelling context as consequential as the EAF determination.

Yours sincerely

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