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Dear Caspian

Choice of gas price data to determine the Electricity Allocation Factor

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) discussion document "*Choice of gas price data to determine the Electricity Allocation Factor*" published on 10 December 2025.
2. MEUG members have been consulted on the approach to this submission. This submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate submissions. MEUG requests a follow up meeting with the Authority to discuss the points raised in this submission.

Summary of key points

3. MEUG welcomes the opportunity to provide feedback on the Authority's discussion document regarding the choice of gas price data to inform the Electricity Allocation Factor (EAF). We appreciate the Authority sharing this document with MEUG and several thermal generators, to test its approach and assumptions. However, we do query what other impacted businesses have had the opportunity to provide comments on this document, in addition to those businesses represented by MEUG.
4. MEUG has engaged extensively with the Authority's staff and Board Chair since the Authority released its first determination of the EAF in August 2024.¹ We have significant concerns with both the Authority's process and technical approach to unilaterally establishing a new EAF methodology, which has subsequently led to the specific issues around gas price data that is discussed in this document..
5. In December 2024, at a joint discussion with the Ministry of the Environment (MfE) and MEUG, the Authority undertook to engage with MEUG and other stakeholders to seek to address the concerns raised. This discussion document is the first formal opportunity provided by the Authority since that meeting; however, its scope is extremely narrow and focused solely on gas prices.

¹ Electricity Authority Determination of the 2024 Electricity Allocation Factor,
https://www.ea.govt.nz/documents/5348/Determination_of_the_2024_Electricity_Allocation_Factor.pdf

6. Despite the additional analysis in this document, **MEUG does not support the use of emsTradepoint gas price**. We continue to hold the view that the secondary gas market (emsTradepoint) is small and not an appropriate reference source for gas prices paid for the material volumes of gas used by thermal generators. In particular, the lack of depth in the gas spot market strongly suggests the opportunity cost of gas for gas-fuelled thermal generation is not a function of the prices in the gas spot market, and hence its use is not appropriate for use in estimating the SRMC fuel component of thermal offer.
7. The Authority's justification in choosing the emsTradepoint gas price is predicated on its interpretation of the legislative requirements for data to be publicly available and within a short timeframe. These legislative constraints are directly related to the Authority's decision to introduce a new methodology without consultation and adequate consideration of the knock-on impacts. This is the root cause of the requirement to use proxy pricing data.
8. The determination of the EAF is important to several of MEUG's members, who are classified as emission-intensive and trade-exposed (EITE) businesses, under the Climate Change Response Act 2002. There is considerable value at stake from these changes, as well as the harmful precedent of discarding an existing EAF methodology that was subject to robust consultation for a new methodology that is neither predictable, certain, or robust.
9. We consider that further discussion and consultation is required on the EAF before confirming the approach. MEUG would like the opportunity to work further with the Authority and targets stakeholders to establish a methodology that is both predictable and certain (enabling business to estimate the EAF and subsequently their own allocations) and draws on the most accurate data available. We expand on these points below.

Root cause of issue – unilateral change in EAF methodology

10. MEUG considers that the underlying cause of the issue around gas price data for the EAF calculation was the **Authority's decision to introduce a new EAF methodology, to that which had been previously consulted upon with the industry**. By way of background:
 - As outlined by the Authority, the EAF is “*an estimate of the effect of the Emissions Trading Scheme (ETS) on wholesale electricity prices in New Zealand. It represents the increase in electricity prices caused by the requirement to put a price on carbon emitted during the production of electricity.*”
 - Values for the EAF were first set in 2010 and subsequently revised for 2013. The work was led by the Ministry for the Environment (MfE) with extensive industry input and engagement. On both occasions, a forward-looking modelling approach was adopted.
 - In late 2019, MfE published an Issues Paper seeking input on updating the EAF. MEUG's submission proposed that an alternative to the forward-looking modelling approach should be evaluated, instead evaluating the EAF on an annual historical look-back basis.
 - Subsequent engagement between MfE, MEUG and other stakeholders refined the alternative look-back approach, with formal consultation on the issue (including published results of modelling) finalised in May 2021. The EAF calculation methodology was excluded from the scope of the 8 July 2021 “*Reforming Industrial Allocation in the NZ ETS*” consultation.

² Paragraph 2.1 of the discussion document.

- On 28 July 2021, the Regulatory Impact Statement (RIS) on updating the EAF used in the NZ ETS, prepared by MfE was issued. The RIS:
 - Set out the preferred approach; an ex-post annual adjustment with a rolling average applied, consistent with the thinking developed through consultation.
 - Highlighted the need for accuracy, but also the importance of predictability to contribute to investor and market confidence.
 - Identified a potential legislative block on immediate implementation for 2022, leading to deferment until 2024.
- Proactive engagement between MfE and MEUG continued in the period up to April 2022, focused on enabling timely implementation of the alternative EAF methodology once legislative barriers had been removed. This included sharing of updated EAF modelling results for 2016 – 2021 with an improvement focus on updated emission intensity factor inputs for the agreed methodology.
- The adoption of the alternative look-back methodology was enabled through the *Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Bill* which had Royal Assent on 24 August 2023.
- In 2024, in the first execution of its legislated role to determine the EAF, the Authority introduced a new approach which had not been previously consulted on.

“3.6: This report considers two counterfactual scenarios to estimate the ETS-exclusive electricity price. The first scenario is based on the Ministry for the Environment’s approach to determining the EAF used in previous consultations, while the second includes the Authority enhancements to incorporate generators’ short run marginal costs.” [Emphasis added]

- The Authority’s choice of the second scenario in its determination results in an EAF for 2023/24 of 0.587, compared to 0.654 under the previously consulted on Scenario 1 methodology. This was a material change.

11. MEUG contends that when legislation was passed transferring responsibility for the EAF to the Authority, it was assumed that’s the historically determined methodology would be applied and that the requirements were appropriate for:

- The input data to be publicly available; and
- The deadline of 31 July to report to the Minister.

12. However, the Authority’s decision to introduce a new methodology which required input data on energy prices of coal and gas was made without stakeholder consultation. MEUG does not support the new methodology’s priority consideration of energy cost recovery over and above all other pricing considerations. The requirements for proxy data in place of actual data from gas and coal prices results from the conflict between legislative requirements and the new methodology.

Do not support use of emsTradepoint data

13. MEUG does not support the use of emsTradepoint gas price data to estimate SRMC, as part of the calculation of the EAF. We continue to hold the view that the emsTradepoint secondary market gas price represents a very minor percentage of a market in which bilateral contracts dominate. Furthermore, the physical impediment of selling gas is quite distinct to the opportunity value that NZU trading presents, as highlighted by the NZU market liquidity. We have replicated information below which we shared with the Authority in December 2024.

Transpower director David Knight, who is on the (Transpower) subsidiary's board, said emsTradepoint accounts for less than 3% of the total natural gas market. "The principal gas trading mechanism is bilateral trades between participants, and the closure of the platform does not change that."

David Knight – Transpower Director

"The spot market provides access to gas at spot prices for about 4-6% of gas. About a third to half of this gas is purchased for balancing purposes, where the daily volumes injected into the system do not match the volumes sold."

Andrew Knight – CEO Gas Industry Company

"The New Zealand wholesale gas market is relatively small and concentrated as there are a limited number of suppliers and consumers. There is a limited observable, liquid spot market and no forward curve for natural gas in New Zealand. The gas trading platform used to facilitate short-term balance in the gas market trades inconsequential volumes relative to the scope of the Company's gas consumption and the overall gas market. The Company does not believe transactions on this platform take place with sufficient frequency and volume to provide pricing information."¹⁰

Methanex

14. This commentary clearly indicates that the secondary gas market is small and not an appropriate reference source for gas prices paid for the material volumes of gas by generators. In particular, the lack of depth in the gas spot market strongly suggests the opportunity cost of gas is not a function of the prices in the gas spot market, and hence its use is not appropriate for use in thermal offers in the same way as the carbon prices used.

Previous consultation on gas price for EAF

15. We note that the question of what gas price should be used in the EAF determination was last consulted upon in 2019 in the context of a forward-looking EAF. The consultation document recommendation was that values should be "*disclosed prices plus PPI where appropriate*".³ This recommendation was based on work by Energy Link, which we have copied below for the Authority's reference:⁴

With a background of tight supply, the ICCC used Energy Link's central gas price forecast for uncontracted wellhead gas in 2035. However, in the shorter term, which is the domain of the EAF modelling, it would be prudent to base gas prices on what is known about gas that is already contracted using the latest announcement from Contact and disclosures from Genesis, with PPI escalation where relevant. Todd's gas³⁵ prices are not in the public domain but may be inferred from the spot prices at which the McKee peaker runs, when it runs, after making an allowance for carbon costs.

Recommendation: Scenario gas prices should be based on disclosed prices of gas, or prices that can reasonably be inferred from spot market behaviour, with escalation where appropriate.

³ Ministry for the Environment. 2019. The New Zealand Emissions Trading Scheme: Modelling the electricity allocation factor: Issues paper. Wellington: Ministry for the Environment. <https://environment.govt.nz/assets/Publications/Files/modelling-eaf-issues-paper.pdf> , Table 2.

⁴ Energy Link. 2019. *Electricity Allocation Factor Review Background Information*. Ministry for the Environment, page 19. <https://environment.govt.nz/publications/electricity-allocation-factor-review-background-information/>

16. With the subsequent adoption of a historical look-back approach (as discussed above) as the preferred methodology, without any “enhancements” to factor in SRMC cost, no further consultation on choice of gas price has been undertaken since 2019.

Review of Authority's analysis

17. MEUG notes that while the chart provided in Figure 1 of the discussion document, and subsequent data obtained from emsTradepoint (on a paid basis), shows some correlation with Otahuhu spot prices, there is significant noise and periodic high variance. In addition,
 - There is no analysis of the volume of gas or coal- fired thermal generation relative to total generation and no credible assessment of when thermal generation was setting the market price as opposed to running without full cost recovery.
 - Figure 2 of the discussion paper compares EMS gas prices *that are also inclusive of ETS costs, with Genesis ETS exclusive gas costs* which introduces another parameter.
18. MEUG therefore does not accept this chart to be sufficient evidence to support the use of EMS spot prices as being representative of generators true costs.

Value at stake from the Authority's approach

19. MEUG asserts that the EAF is a significant input to the determination of EITE businesses' unit allocation and in many cases is materially significant to their profitability. From our own calculations of some activities, using the Authority's reported 2024 single year EAF's, the choice of Scenario 2 over Scenario 1 represents a 10% reduction in Allocative Baseline. Although the difference is diluted in 2024 due to it being the first year of the 3-year rolling average, it will have full effect from 2026 onwards. The wood processing sector is particularly impacted.
20. Similarly, the EAF methodology also has a material impact on the cost to the Crown of industrial allocation. It is therefore important that the electricity allocation factor is accurate. MEUG considers that this accuracy cannot be assured using proxy gas data from third parties.
21. MEUG contends that this issue is also wider than just gas prices, as coal prices are also important to the methodology. With the stockpiling of coal at Huntly,⁵ the timing of coal purchases, the unit cost and exchange rate may be increasingly relevant. However, we note that the opportunity value for coal sale is less relevant. We would welcome the opportunity to discuss the approach to coal prices with the Authority and relevant stakeholders.

Solutions for consideration

22. Should the Authority retain its new methodology, MEUG considers that there are several alternate approaches that the Authority could pursue to establish more representative gas (and coal) prices. For example:
 - The Authority highlights that it receives fuel price data on a weekly basis from thermal generators. For an accurate assessment of the EAF, it would make sense for this data to be used. This may require a waiver or legislative change to remove the strict requirement for the data to be publicly available.
 - Alternatively, it could be interpreted that the data provided to the Authority is still made publicly available on an aggregated basis through MBIE or Stats New Zealand or by the Authority, just not by the deadline date. In this case, a relaxation on the deadline date could also be considered.

⁵ As enabled by the strategy agreement between the four electricity gentailers, [Commission authorises Gentailers' application for Strategic Energy Reserve Huntly](#).

23. Given the significance of this issue, we believe that discussion with the Ministry for the Environment is warranted. This discussion should include assessing the potential to make legislative changes to alleviate the requirements for input data to be publicly available and reporting deadlines, to ensure accuracy in the determination of the EAF.

Next steps

24. MEUG requests a meeting with Authority staff to further discuss the points raised in our submission. We also consider that there would be benefits from holding a workshop with targeted stakeholders, to review the submissions made and to discuss the broader changes made to the EAF methodology, that have led to this discussion document. Only with this context and with input from a range of informed stakeholders, can a robust, predictable and transparent methodology can be established.
25. To set up a meeting or if you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



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CC: Ameera Clayton, Ministry for the Environment

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