

Ministry of Business, Innovation & Employment  
33 Bowne Street  
PO Box 1473  
Wellington 6011



**ATTN:** Victoria Chrisp [ BY EMAIL]

1 August 2014

Dear Victoria

**RE: Consultation on Gas Disruption Study**

emsTradepoint welcomes the opportunity to comment on the MBIE consultation paper 'Gas Disruption Study' (*the Study*), analysing the resilience of the New Zealand gas market to supply interruption.

The Study puts forward some interesting viewpoints and emsTradepoint would like to reflect primarily on the market principles and risk management points raised.

***emsTradepoint***

emsTradepoint is a recently established physical commodity exchange that is owned and operated by Transpower New Zealand Limited.

Our first listing is a natural gas spot contract for delivery on Vector Gas Limited's SKF pipeline (at Frankley Road) – the NGP:FR product. This listing is sponsored by Methanex New Zealand Limited, OMV New Zealand Limited and Vector Gas Contracts Limited. Most major gas industry participants are either already emsTradepoint members, or in the process of being on-boarded or conducting due diligence.

All trading activity takes place on a proprietary exchange platform with two market venues: On-The-Day and Day-Ahead (6 months forward window). Transpower acts as central counterparty to all trades. emsTradepoint is the only active wholesale gas market in New Zealand.

More information on emsTradepoint can be found at [www.emstradepoint.co.nz](http://www.emstradepoint.co.nz)

***Liquidity***

Since being listed in late 2013, the NGP:FR product has seen:

- ~5.8 PJ of orders (1.7 PJ of Bids / 4.1 PJ of offers),
- ~330,000 GJ of traded volume; and
- transactions at a face value of c.\$1.9 million.

Whilst the market is in early growth stage at the moment, there is sufficient liquidity and participation to allow the market to fulfil a meaningful role within the scenarios put forward in the Study.

The Study consistently alludes to the emergence of secondary trading platforms as a recent change in the New Zealand gas industry. It is widely accepted that an open, competitive and transparent marketplace is the most efficient manner to allocate a scarce resource. This is true in the descriptions the Study provides around mitigating the economic impact of supply interruptions, but also in a purely commercial sense.

Comments in the Study state that previous trading initiatives in New Zealand have failed to gain traction and the risk of a market with low levels of liquidity prevent gas from flowing to its highest value use. These points are acknowledged, but the approach by emsTradepoint to establish its NGP:FR listing in conjunction with significant gas industry support is a material step forward from previous attempts and has resulted in a liquid market emerging.

It is also worth noting that ASX is currently evaluating the merits of a natural gas futures contract listing. These futures contracts would be cash settled against the emsTradepoint gas indices.

### ***Study scenarios***

The study presents scenarios for the effects of specific gas field or production station outages, describing a situation of non-diversified supply arrangements. The emsTradepoint markets allow fully diversified arrangements, i.e. a natural seller can be a buyer and a natural buyer can be a seller.

emsTradepoint provides solutions to the supply/demand balance being re-established during pipeline events and we agree with the Study that MBIE should take a keen interest in the developing trading proposal to assess how we might operate as part of any security event. MBIE has not done so thus far and we encourage a more proactive approach going forward.

As stated, the physical products available on the emsTradepoint markets, as well as incoming derivative products, will provide gas traders and asset managers the tools to manage risk efficiently. Gas storage facilities and scaled down industrial consumption are mentioned as possible solutions to supply interruptions, but these assets (and all others) require efficient price signals to determine action.

emsTradepoint is in agreement with MBIE that, while the tools are now in place to allow effective risk management, it is stakeholder engagement that will drive the effectiveness of price discovery and efficiency.

Examples provided in the Study around fuel switching provide a somewhat simplified view, but price discovery is key and is a complex activity with multiple contributing factors. An increase in the number of analysts assessing market information from within the gas industry and from financial institutions will lead to a more efficient and reactive process. This, in turn, will lead to market-based price signalling in times of constraint that gas assets with inherent optionality will be able to react to.

The Study also notes that secondary markets are not able to solve a supply issue caused by a catastrophic outage at one or both of the major transmission pipelines running north of Taranaki. Hub-

based market pricing is a crucial factor to the efficient management of these types of events – something the Critical Contingency Operator will likely reinforce.

Going forward, we would strongly recommend that MBIE include the market-operator on these types of work-streams and provide us with the opportunity to keep MBIE up to date on how the market arrangements are progressing.

Regards

A handwritten signature in blue ink, appearing to read 'James Whistler', with a large, stylized flourish extending to the right.

James Whistler  
emsTradepoint