

A monthly review of trends in the energy markets compiled by Energy Link Ltd

September 2009 ELL Index

9.1 c/kWh

All values in Energy Trendz are ex GST

(at Haywards)

Other Nodes

The index referenced to:

Otauhu	9.2 c/kWh
Benmore	8.8 c/kWh

Change

The index rose in September by 0.5 c/kWh or 6% since mid August.

Volume

1 contract (excluding EnergyHedge contracts) traded during the month, totaling 10 GWh over the period Aug-09 to Jul-11.

Contract Types

1 FPV (fixed price variable volume)

Spread

Only 1 contract is eligible for the index this month.

Location Factors

No changes in expected location factors this month.

Energy Hedge

Based on latest trades as of 17th Sep-09:
7.2 c/kWh
 (21% lower than the index)

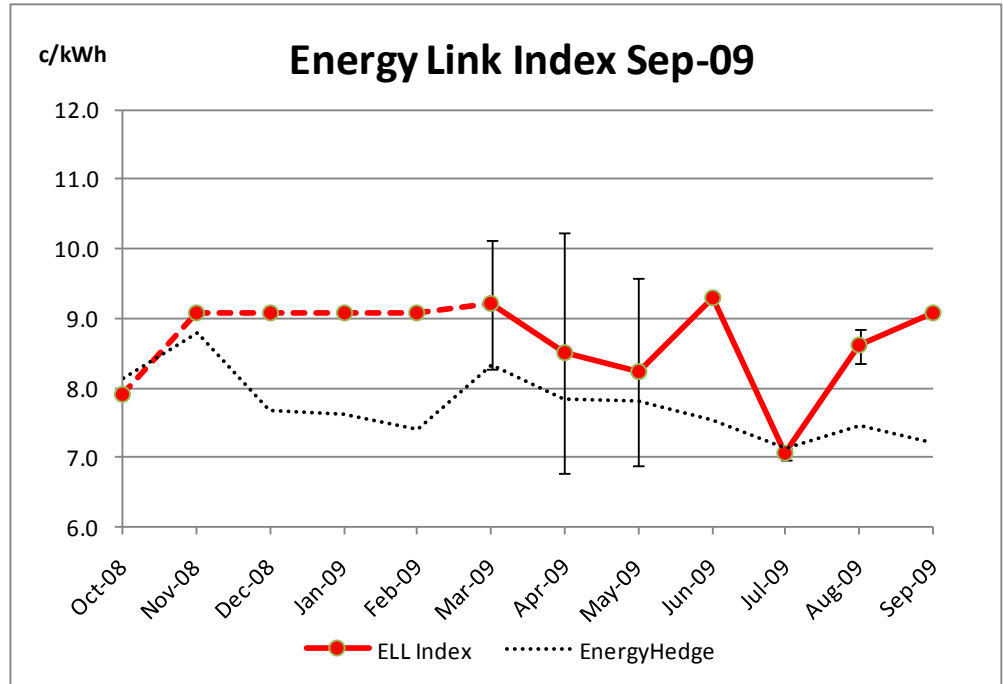
79 contracts traded in the month ending 16-Sep-09, totaling 36 GWh over the period Aug-09 to Sep-10.

ASX Futures

Based on 3 year average 'previous settlement' dates for 2010 - 2012, as of 17th September:

Otauhu	8.0 c/kWh
Benmore	8.0 c/kWh

Energy Link Electricity Contract Index



The Energy Link Ltd (ELL) index chart shows the values over the 12 months up to and including 15th May 2009. Solid red line—the index values from Mar-09 use the detailed contract data disclosed by the Electricity Commission since 2nd Feb-09. Dashed red line—for the months prior to Mar-09 we have used data disclosed by M-co on behalf of the industry (these data points are not strictly part of the ELL index series). The equivalent to the index for EnergyHedge is shown as the dotted line.

All contracts are referenced to the **Haywards** reference node on the grid (lower North Island), and the error bars show the highest and lowest contract value in the 36 month period covered by the index. The index, and how to use it, are described in more detail at www.energylink.co.nz/energy-trendz.

EnergyHedge contracts are traded between the five major retailers and are not available to consumers.

Commentary

The **index rose this month** on a volume of only 1 FPV contract traded in the lower South Island. There were 3 other contracts that qualified for the index by date but these were pending verification and so, under our index methodology, could not be included.

The average 3 year-ahead price of **EnergyHedge** contracts finished 0.2 c/kWh or 3.2% down over the month at 7.2 c/kWh.

The **ASX** electricity futures contracts at Otauhu did not trade during the month but all three Benmore strip (annual) futures (2010, 2011 and 2012) traded last on 31-Aug-09. The Benmore base quarterly futures from Q1 2010 traded last on 2-Sep-09.

We continue to see data issues in the disclosed hedge data. The contract making up the index this month should have been disclosed within 10 business days of becoming binding but was actually disclosed 40 calendar days after. We have noticed that a number of contracts have also incorrect trade dates, for example confusing the date the contract becomes binding with the start of the con-

Commentary

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tract (in some cases this makes them appear to have been disclosed before they become binding.)

The rules around hedge disclosure state that the 'trade date' is the date "on which legally binding rights and obligations are created between the parties under a risk management contract". Our legal adviser tells us this effectively means the date on which the contract is actually signed by both parties. A 'trade date' can not be defined in the contract, and it is not an earlier date when the parties, for example, may have agreed in principle to the contract.

The big news this month is the government's deal with the Maori Party on an **amended ETS**. Uncertainty around the ETS has dogged the market for months but new legislation will be introduced into Parliament in the near future. For our part, we'll believe the ETS is finalized (to 2012 anyway) when the legislation is actually passed.

The key aspects of the proposed new ETS as they apply to electricity and petroleum fuels are:

- the **ETS will apply from 1-Jul-10** for transport, energy and industrial sectors (the current legislation starts 1-Jan-10 and electricity contract prices have recently assumed a delayed start of 1-Jan-11);
- until 1-Jan-13 the obligation to surrender NZ carbon units (NZUs) will be watered down to 50%, i.e. thermal generators will only have to surrender 1 NZU for every 2 tonnes of CO_{2e} they emit;
- the carbon price will be fixed at \$25 per NZU for the transport, energy and industrial sectors until 1-Jan-13;

These measures effectively see a carbon charge of \$12.50 per tonne of CO_{2e} emitted up to 1-Jan-13, which is half of the value assumed by the electricity industry, for example. The impact on electricity prices will therefore be less than assumed by just about everyone.

Based on \$25 per NZU we have calculated the carbon component of spot electricity prices to average about 1.5 c/kWh over a year, so the government has effectively halved this to about 0.75

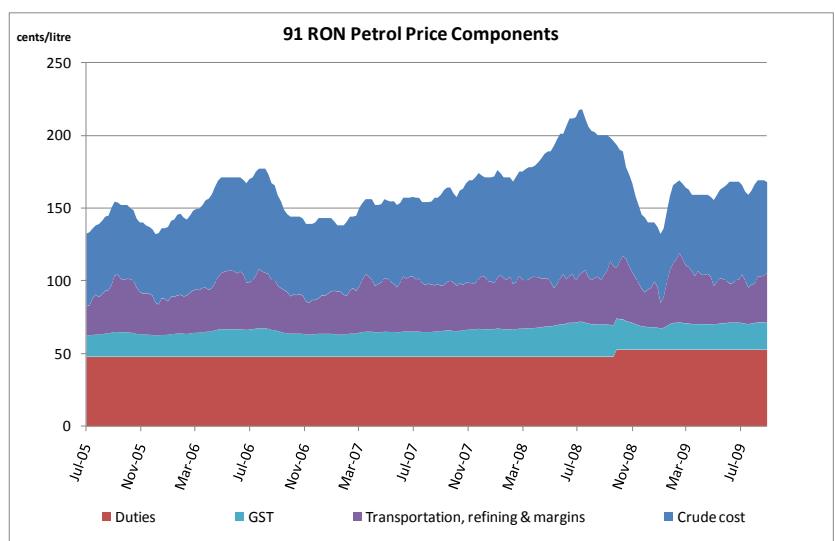
c/kWh (or 1 c/kWh for electricity and 3.5 cents per litre for petrol by the government's own calculations.)

Pole 1 of the HVDC link is now running at up to 200 MW, albeit under restricted operating rules, which is welcome news for the market. With Pole 1 out of service and lots of water in the South Island, significant price differences have occurred across the link. The new operating rules will lower these differences significantly and allow more southern electricity north. Spot prices are currently sitting below about 1.5 c/kWh in both islands and the price difference across the HVDC link has fallen to normal levels.

Petrol Prices

The chart at right shows the price of 91 octane (91 RON = "research octane number") from July 2005, broken down into its 4 major components: government duties, GST, the cost of transporting and refining crude oil including the retailer's margin, and finally the spot price in NZD of crude oil on international markets. Duties and GST currently comprise 43% of the total at-pump cost (major centres) of 91, with the cost of crude at 41%.

Both the crude price and the NZD/USD exchange rate fell over the last month, but prices at the pump finished up 1% up at the pump for the month. We expect pump prices to ease over the next month while the NZD remains high. More data is at www.med.govt.nz.



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