



**The New Zealand
REFINING COMPANY LTD**

12 May 2011

Submissions
Electricity Authority
By email to submissions@ea.govt.nz

To Whom It May Concern:

Consultation paper – Draft Decision regarding alleged UTS on 26 March 2011

This submission is made by The New Zealand Refining Company Ltd (NZRC) on the Electricity Authority consultation paper "Draft decision of the Electricity Authority under Part 5 of the Electricity Participation Code regarding an alleged UTS on 26th March 2011" published on 6th May 2011.

On 30th March 2011 NZRC lodged a claim of an Undesirable Trading Situation arising out of market events on the 26th March 2011 which led, in our view, to unreasonable spot electricity pricing during this period. NZRC submitted this claim given the potential significant financial impact on its business and concern over the setting of a new pricing precedent within the electricity marketplace.

The Authority has now reached a preliminary finding that the situation existing on 26th March 2011 did constitute an Undesirable Trading Situation. The reasons for the preliminary finding are set out in the draft decision document, which also sets out the draft remedial actions that the Authority intends to take to correct the UTS.

The following lists NZRC's responses to the questions posed by the aforementioned consultation paper.

Yours sincerely

D.E. Martin
Energy Manager

Question	General comments in regards to the question:	Response
Q1. Has the Authority accurately recorded and interpreted all of the salient facts in regard to this matter? If not, please detail the inaccuracies		To the best of our knowledge we believe the Authority has recorded all of the salient facts to this matter.
Q2. Do you agree with the Authority's draft decision that the situation existing on 26 March 2011 constitutes a UTS? Please give reasons for your answer.		We agree with the Authority's draft decision for the reasons outlined in the Authority's report.
Q3. Do you agree with the draft remedial actions that the Authority intends to take to correct the UTS? Please give reasons for your answer.	<p>We have a number of questions regarding the proposed remedial actions, namely:</p> <ol style="list-style-type: none"> 1. We note the Authority's finding [Para 102] that forecast prices failed to <i>consistently</i> predict actual prices, due to demand forecast errors (forecast prices for the 26th were low while subsequent interim prices were high). We question whether Contact would have taken the same action to remove 425MW of offered energy at Stratford had these demand forecast errors not occurred, and as such what would have been the impact on electricity pricing on the 26th March. We believe this should also be considered as part of remedial action review. 2. Further that pricing was significantly lower than the proposed remedial action during the similar event that occurred on 2nd April 2011. 3. We also note the diesel price used in the assumptions underpinning LRMC is based on retail diesel prices in April 2011 while coal/gas prices are derived from 	We agree with the decision to reset prices to a more reasonable level. We do however have some questions relating to how this pricing was set (see general comments).

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Question	General comments in regards to the question:	Response
	<p>the 2010 SOO. We question whether it is appropriate/valid to use current retail diesel prices (which include GST and retail margin) when the other fuels have been based on assumptions which formed preparation of the SOO in 2010. We note that the diesel price assumption in 2010 was \$25/GJ which equates to around \$0.90-1.00/litre. We would expect this to be representative of the average level of diesel prices for 2010. We believe this should also be considered as part of remedial action review.</p> <p>4. We note that an upper bound of \$3000/Mwh has been set [para 166] based on the Authority's observations of the trial in the Upper South Island where customer load shedding was assessed to occur. We question whether this assessed level is appropriate to the market in the North Island affected by this event. We believe this should also be considered as part of remedial action review.</p>	
<p>Q4. Are there any other remedial actions that the Authority should take to correct the UTS? If so, please detail the other actions and give reasons for your answer</p>		<p>No further comments</p>

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