



Vodafone New Zealand Limited

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Electricity Authority
PO Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sirs

Draft decision regarding alleged UTS on 26 March 2011

Vodafone's confidence in the operation of the wholesale electricity market was badly shaken by the events of 26 March 2011, but this draft decision with its proposed remedy is a major step towards restoring our faith in the operation of a fair, transparent and competitive wholesale electricity market.

Vodafone New Zealand's response to the Electricity Authority's call for submissions on the Authority's draft decision released on 6 May 2011 is as follows.

1. Has the Authority accurately recorded and interpreted all of the salient facts in regard to this matter? If not, please detail the inaccuracies.

Yes.

2. 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.

Yes.

Vodafone's view is that the exceptionally high interim prices, if allowed to stand, would have undermined the wholesale market for electricity in New Zealand. As the draft decision notes, a combination of factors gave rise to a squeeze on the wholesale electricity market and a squeeze, the Authority notes in its analysis, is generally regarded as an undesirable practice in commodities and futures markets. When the squeeze translates to exceptional prices, a squeeze is regarded as a threat to orderly trading, by definition a UTS.

The circumstances in which the wholesale market operated on 25-26 March 2011 gave rise to interim prices which would have seriously disadvantaged consumers for whom there were few, if any, practical remedies available at such short notice.

If the exceptional interim prices are not adjusted to realistic levels the economic consequences for participants in the wholesale electricity market and, indeed, for the national economy as a whole could be serious. Consumers who currently buy their electricity on the wholesale market would be likely to withdraw from the wholesale market and seek other arrangements, e.g. FPV offerings. This, as the draft decision notes, could significantly reduce potential demand-side management. Consumers

might also opt to install their own emergency generation which, as the draft decision notes, would be inefficient.

3. Do you agree with the draft remedial actions that the Authority intends to take to correct the UTS? Please give reasons for your answer.

Yes.

We believe that the prices should be reset. Whilst we accept that the prices be in the suggested range of \$1500-\$3000/MWh we note that prices settled well below these levels on the following weekend when similar transmission constraints occurred. Therefore we would expect that prices be at the lower end of the suggested range.

4. 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.

No.

Vodafone notes that the Authority was asked by some claimants to set direction to participants to reduce the incentives for such pricing behaviour in the future and to consider measures to prevent a reoccurrence (paragraphs 58 (f) and (g)). Since there is no cap to wholesale prices in the New Zealand market, Vodafone wonders whether this draft decision, if confirmed as the final decision, would in reality eliminate the risk of a reoccurrence. As far as Vodafone understands, there is nothing to prevent a generator offering very high prices in the future.

Should exceptional circumstances (such as occurred on 26 March) arise again, very high offer prices could translate into very high settled prices. While this draft decision, if confirmed, would set a precedent, the test for a UTS having taken place is clearly a high one. Vodafone's view is that the wholesale electricity industry needs certainty and stability around pricing and that a mechanism which prevents extreme pricing would be highly beneficial to consumers. Certainty around exceptional pricing would also be of benefit to generators since it would allow them to adjust their pricing models accordingly.

Yours sincerely



Mark Jones
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Vodafone New Zealand Ltd