



13 May 2011

UTS Committee
Electricity Authority
Level 7, 2 Hunter Street
Wellington

By email: submissions@ea.govt.nz

Re: Draft decision of the Electricity Authority under Part 5 of the Electricity Industry Participation Code regarding an alleged UTS on 26 March 2011

Switch Utilities Limited agrees with the finding that the 26 March 2011 situation constituted an Undesirable Trading Situation (UTS).

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

Switch Utilities Limited is not in a position to comment on the key events as summarized by the Authority in paragraphs 73.

Question 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.

Switch Utilities Limited agrees that the situation threatened trading on the wholesale market, and if left un-remedied, was likely to preclude the maintenance of orderly trading and the proper settlement of trades. Switch Utilities Limited also agrees that the situation cannot be satisfactorily be resolved by any other mechanism under the Code.

Switch Utilities Limited agrees with the Authority's finding that the 26 March 2011 constituted a UTS.

Switch Utilities Limited agrees with the Authority's statements that:

- The high interim prices of 26 March 2011, if they are allowed to become final prices, threaten to undermine confidence in the wholesale market for electricity, and threaten to damage the integrity and reputation of the wholesale market for electricity [paragraph 147 (b)]; and
- The high interim prices on 26 March 2011 are Switch Utilities Limited understands not the result of some underlying supply-demand imbalance, e.g. inadequate capacity or fuel, and they appear to bear no resemblance to any underlying or avoidable cost. It is in the public interest to have an electricity market in which all participants can be confident prices are competitively determined. If participants observe that prices are greatly divorced from supply-demand conditions and are excessively higher than underlying costs, they will lose confidence in the integrity of the market arrangements and the incentive structures surrounding the wholesale market for electricity may be greatly damaged. [paragraph 135]

Question 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.

Switch Utilities Limited agrees that the remedial action should focus on setting appropriate final prices for trading periods 22 to 35 inclusive on 26 March 2011.

However, Switch Utilities Limited does not agree that the scheduling, pricing and dispatch software should be rerun with Huntly offer tranches set at a point in the range \$1,500/MWh to \$3,000/MWh to establish final prices for trading periods 22 to 35 inclusive on 26 March 2011.

The effect of using a \$1,500/MWh to \$3,000/MWh offer tranche range would still result in excessively high prices (\$1,500/MWh to \$3,000/MWh) for trading periods 22 to 25 inclusive on 26 March 2011 as the various Genesis generating units would set price.

Setting final prices on this basis will not restore market confidence in the integrity of the market arrangements as it may encourage participants with transitory market power:

- To signal that they intend to offer up to the 'regulator approved price cap' to increase the price in the contracts market; or
- To offer up to the 'regulator approved price cap' in the spot market.

Switch Utilities Limited submits that the Authority should not in its final UTS decision legitimise super normal prices as this will lead to inefficient behaviour by both demand and supply side participants, which would be against the public interest.

Question 4: Are there any other remedial actions that the Authority should take to correct the UTS? If so, please detail the actions and give reasons for your answer.

Switch Utilities Limited proposes that the Authority should set final prices for trading periods 22 to 35 inclusive on 26 March 2011 based on rerunning the scheduling, pricing and dispatch software with Genesis offer tranches reflecting an estimate of 'short run marginal cost', consistent with trading periods where Genesis' offers are subject to competition.

Switch Utilities Limited considers the Authority's proposed actions with regard offer prices and quantities for Tokaanu, Rangipo and Tuai and Waikato generation, and calculation of constrained on amounts are reasonable.

Setting final prices on this basis will:

- Provide for the maintenance of orderly trading and proper settlement of trades;
- Restore the integrity and reputation of the wholesale market for electricity;
- Restore confidence in the wholesale market for electricity, and of demand side participants to continue to provide flexible demand side response.

If you have any questions regarding this submission please contact Nick Yates for Switch Utilities.

Nick Yates

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Switch Utilities Limited