



Cross submission to the Electricity Authority (EA) in respect of its proposed response to the complaints that a UTS occurred on the 26th March, 2011

EMA (Auckland) is the largest association in New Zealand representing employers, manufacturers and business and is also related to the Employers Chamber of Commerce Central, Wellington, the Canterbury Employers Chamber of Commerce (Christchurch), and the Otago Southland Employers Association (Dunedin).

Together these four associations are the founding members of BusinessNZ headed by Phil O'Reilly (Wellington), which means we are the primary funders of BusinessNZ. EMA is in effect a 52% shareholder in BusinessNZ.

We are pleased to contribute this cross submission to assist the EA make its final decision about an appropriate price re-set given that it has found that a Unjustified Trading Situation occurred on 26th March, 2011.

We agree with the EA's view that a UTS occurred and we particularly concur with the original submission pieces made by Sapere and Len Ward.

We do not agree with the EA's proposed price re-set at \$1500-\$3000 because we believe that level is much too high.

Most of the companies that lodged a UTS complaint are members of EMA. Throughout the period since the UTS occurred EMA has kept in touch with them.

Since the EA's 6th May 2011 interim decision we have asked, in writing, each of them, in confidence, to answer two questions:

- 1. The EA in its interim decision released Friday 6th May, 2011, as to whether a UTS on the 26th March that saw spot prices soar to \$20,000 MW hr, found that there had been a UTS and has as a consequence proposed to re-set prices in that 6 hour constraint period to a range of \$1500-\$3000 MW hr. This was proposed, we believe, on the assumption made by the EA, that at \$1500 MW hr, spot price buyers (end users like you) would shed load (shut down or reduce consumption and /or use their own co-generation if such was available). The question is, what volume of electricity would you have reduced using at a price of \$1500 MW hr, had you known that would be the price during the 6 hr constraint period on 26th March, 2011?**
- 2. Had you known you were to face a high price for the 6 hour period on the 26th March, at what price per hour would you have remained fully operational; at what price would, if you could have, started up your co-gen; and at what price would you have started shutting down plant?**



I have also talked to a good number of them about the price that would have activated both co-gen (where applicable) and load reduction (where possible). Broadly speaking, and assuming no other imperative to maintain production, **the answers were around \$150 MW hr for co-gen initiation and \$250 MW hr for load shedding.**

Others said they had no co-gen and a few others (reasonably big consumers at spot prices) said they had little practical opportunity to significantly shed load. Those in this category reluctantly accepted that they had to wear that risk but found that acceptable if there was a shortage of 'fuel' but not in the circumstances around the 26th March constraint. They still feel \$1500-3000 for those circumstances is a way too high. **For these firms (not able to shed much load), it would be fair to say that they reluctantly held the view that \$500-\$1000 was a more appropriate sum. I stress though that even at that level they were not happy.**

Based on this information I believe the EA has proposed a final price that is much too high at \$1500-\$3000. Yes it is much better than \$20,000, but it is much higher than a level that those who have co-gen and/or an ability to shed load would have done so had they have been reasonably expected to know. Their view is \$150-\$250.

Those who had little option felt that \$500-\$1000 range was an absolutely maximum level in the circumstances in which this UTS occurred.

Finally on this point, EMA says that **the EA should prioritise demand side response in its work program, and transparency mechanisms around transmission outages.**

EMA is deeply concerned about how poorly informed the market is, and the information gap for the consumers who are the subject of this cross submission.

EMA is also deeply concerned about availability of hedges. The hedge market is sub-optimal and that needs to be addressed.

Thank you for the opportunity to cross submit.

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