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Submissions

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To Whom It May Concern

### **Undesirable Trading Situation on 26 March 2011 - Submission on Proposed Actions in Response to the Final Decision**

Thank you for the opportunity to make a submission regarding the proposed actions in the Electricity Authority's final decision of 15 June 2011, in relation to the Undesirable Trading Situation (UTS) on 26 March 2011.

We support the finding that the extenuating circumstances of 26 March 2011 constituted a UTS, and a core component of that finding was that the wholesale electricity market was subject to a squeeze.

There is nothing in the final decision that changes our assessment of the UTS or our views on how it could impact the credibility of the electricity market (wholesale and derivative) as provided in our previous submissions to the EA.

#### **Proposed Actions**

Consistent with our earlier submissions, we believe that the EA should reconsider Huntly's offers and the pricing of demand side participation in establishing the revised final price.

The EA found that the squeeze comprised: (1) Genesis being in a position to set prices in a way that did not reflect supply and demand; and (2) the parties exposed did not have sufficient time to mitigate that exposure. In resetting prices, the EA has only focused on the second part of the squeeze by seeking a specific demand response price cap as opposed to removing the Genesis offers that contributed to the squeeze. Furthermore, we believe that with adequate notice, the demand side response would have been at much lower levels than the \$3,000/MWh proposed, and also refer to the EMA's cross-submission. Therefore, we believe

that Huntly's offer prices should be reset to pre-squeeze levels, and that a lower cap should also be applied in determining the final prices.

The trading conditions on 14 May were comparable to those of 26 March, with similar transmission and thermal outages affecting the upper North Island. The key difference is that on 14 May, unlike 26 March, no party succeeded in implementing a squeeze (intentionally or not) and therefore we believe those prices are the best approximation of the outcome of 26 March, absent a squeeze.

### Market Guidance

We believe that the final decision should provide greater clarity regarding expected behaviour around similar events to ensure an orderly and functioning market. The residual ambiguity is partly due to the proposed actions not removing the squeeze referred to above, though also due to the comments in the final decision and related documentation.

In the *Summary of UTS Decision and Related Matters* the EA notes:

*Had the exceptionally high prices resulted from a genuine scarcity of electricity supply, and [emphasis added] had the high offer prices been well signalled in advance, it is unlikely the Authority would have found the events of 26 March constituted a UTS...*

and then,

*'..if a generator is in a position where it can 'name its price' even though there is no genuine scarcity of electricity capacity or supply, then it is unlikely the Authority would declare a UTS....provided the likelihood of those prices had been signalled sufficiently in advance that other parties were able to respond.....'*

and then,

*'when there is not a genuine scarcity of supply a generator in a position to name its own price risks the Authority finding a UTS if it is possible parties will have insufficient time to take actions to curtail demand or increase their own generation and it sets its offer prices without regard to the cost other parties would incur if they had the opportunity to curtail demand or increase their own generation.*

Considering the above EA statements, we believe that the EA should make it clear in this UTS that it is unacceptable for a generator to make wholesale modifications to offer prices when net pivotal, and where those prices do not reflect genuine capacity and energy scarcity, irrespective of the notice given to the market. We believe the market would also benefit from clarification of what the EA considers to be adequate notice to the market in terms of both time and form of notice.

The integrity of the wholesale electricity market, and consequently, the growing derivatives market, is the paramount consideration addressed in our submissions and those of our experts. We encourage the EA to provide the strongest possible guidance regarding taking

advantage of net-pivotal transmission constraints, if not through this UTS, then through subsequent code development.

Whilst not part of the proposed actions, we believe that the EA should modify the UTS rule to establish EA-administered downsides for participants engaging in conduct which gives rise to a UTS. As it stands, engagement in this conduct is a free option to those that seek to engage in undesirable trading, including setting out to cause artificial prices.

None of the information in this submission is confidential. Please do not hesitate to contact me should further clarification be required.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Fraser Whineray', written in a cursive style.

**Fraser Whineray**

General Manager - Operations