

CLAIM OF UNDESIRABLE TRADING SITUATION (UTS)

CONTACT DETAILS

Reporting Participant: Contact Energy Limited

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BASIS OF CLAIM

(Regulations 55(1) and (2))

Specify relevant Regulation/s under which Participant claims a UTS - refer to the relevant Regulations below

Describe why in your view the claimed UTS is a contingency or event that threatens, or may threaten, trading on the wholesale market for electricity and that would, or would be likely to, preclude the maintenance of orderly trading or proper settlement of trades.

- 1. For trading periods 15 to 19 on 12 November 2009 Real Time Prices across the North Island reached extreme levels; prices at Stratford were as low as -\$6500/MWh.*
- 2. The low Stratford price would normally indicate that generation from the TCC station was not required and a dispatch instruction to ramp the unit down to zero MW was expected.*
- 3. Given no such instruction was received, there was an obvious disconnect between Real Time Prices and Real Time Dispatch.*
- 4. These peculiar prices began around 0700, yet no explanation was given until 0911, when a CAN stating that Real Time Prices appeared to be incorrect. The contradictory market information coupled with the large delay in the release of information from the System Operator created a situation where the orderly trading on the wholesale market was unquestionably affected. In the absence of this explanation decisions were made on the basis of what was provided.*
- 5. Accordingly, Contact does not believe that the information available to participants was sufficient for orderly trading and seeks a full investigation of the events that led to this outcome. It is also unclear whether this modelling anomaly will reappear in Final Prices; this uncertainty should not exist in an orderly market.*

6. *Declaring a UTS allows this situation (or potential error) to be reviewed in further detail by the System Operator and the Electricity Commission prior to the publication of a Final Price. A formal explanation as to how these prices were calculated also needs to be released prior to publication.*

Describe why in your view the claimed UTS could not be satisfactorily be resolved by any other mechanism available under the rules.

7. *This event undermines the credibility of the real time price setting mechanism and calls into question the fallibility of the Real Time Pricing model.*
8. *A full investigation of this event is required to satisfy participants that Final Prices will be appropriately reviewed before being released and that the errors or issues that led to this event (or other potential events) have indeed been resolved. A repeat of this event should not be allowed to occur.*

SOLUTION SOUGHT BY APPLICANT

(Regulation 56

Specify relevant Regulation/s under which Participant claims a UTS - refer to the relevant Regulations below

Describe how in your view the claimed UTS could be resolved by the Board, bearing in mind the following powers of the Board should it find that a UTS does exist

- suspending, or limiting or curtailing, an activity on the wholesale market for electricity, either generally or for a specified period:
- deferring completion of trades for a specified period:
- directing that any trades be closed out or settled at a specified price:
- giving directions to any participant to act in a manner (not inconsistent with these regulations, the rules, or any other law) that will, in the Board's opinion, correct or assist in overcoming the undesirable trading situation:

9. *It is an integral part of any market that price reflects the going market conditions and that participants have an accurate expectation of their exposure prior to the publication of clearing prices.*

10. *The event described leaves the market with an unacceptable level of uncertainty.*

11. *Contact requests that the Electricity Commission verifies the SPD inputs are correct and reasonable before Final Prices are released and takes measures to urgently satisfy participants that the errors or issues that lead to this unfortunate event have been resolved.*

WHEN CLAIMED UTS OCCURRED

Date: 12 November 2009

Time: Trading periods 15 through to 19

DESCRIPTION CIRCUMSTANCES AND IMPACT

Please provide description of the circumstances surrounding the claim and include a detailed description of the impact you have suffered as a result of the claimed UTS which must be supported by a statement from the CEO of your company.

It is estimated that Contact could have in the order of ~\$3m exposed if these prices become Final Prices, however there is too much uncertainty in the price setting mechanism to quantify this amount at this time.

Please send completed form to compliance@electricitycommission.govt.nz

Regulation 55(1) and (2) Meaning of undesirable trading situation—

- (1) An undesirable trading situation means any contingency or event—
- (a) that threatens, or may threaten, trading on the wholesale market for electricity and that would, or would be likely to, preclude the maintenance of orderly trading or proper settlement of trades; and
 - (b) that, in the reasonable opinion of the Board, cannot satisfactorily be resolved by any other mechanism available under the rules.
- (2) Without limiting subclause (1), an “undesirable trading situation” includes—
- (a) manipulative or attempted manipulative trading activity;
 - (b) conduct in relation to trading that is misleading or deceptive, or likely to mislead or deceive;
 - (c) unwarranted speculation or an undesirable practice;
 - (d) material breach of any law;
 - (e) any exceptional or unforeseen circumstance that is at variance with, or that threatens or may threaten, generally accepted principles of trading or the public interest.

Regulation 56 Actions Board may take to correct undesirable trading situation—

- (1) If the Board finds that an undesirable trading situation is developing or has developed, it may take any of the steps listed in subclause (2) in relation to the wholesale market for electricity that the Board considers are necessary to correct the undesirable trading situation.
- (2) The steps that the Board may take include any 1 or more of the following:
- (a) suspending, or limiting or curtailing, an activity on the wholesale market for electricity, either generally or for a specified period;
 - (b) deferring completion of trades for a specified period;
 - (c) directing that any trades be closed out or settled at a specified price;
 - (d) giving directions to any participant to act in a manner (not inconsistent with these regulations, the rules, or any other law) that will, in the Board's opinion, correct or assist in overcoming the undesirable trading situation.
- (3) The participant must comply promptly with any direction given to it in writing.
- (4) Neither a participant nor the Board is liable to any other participant in relation to the taking of any action, or any omission, that is reasonably necessary for compliance with a Board direction under this regulation.