

**IN THE MATTER of the
Electricity Act 1992**

AND

**IN THE MATTER of the
Electricity Governance
Regulations 2003**

**DECISION OF THE ELECTRICITY COMMISSION PURSUANT TO PART 3 OF THE
ELECTRICITY GOVERNANCE REGULATIONS 2003 REGARDING AN ALLEGED
UNDESIRABLE TRADING SITUATION ON 21 April 2009**

UTS Decision 9 dated 21 May 2009

Decision of the Electricity Commission pursuant to Part 3 of the Electricity Governance Regulations 2003 regarding an alleged undesirable trading situation on 21 April 2009

Introduction

1. Under Part 3 of the Electricity Governance Regulations 2003 (regulations), the Electricity Commission (Commission) is responsible for investigating undesirable trading situations (UTS) and, if the Commission finds that a UTS is developing or has developed, it may take steps in relation to that UTS.
2. This document sets out the reasons for a decision by the Commission that the circumstances existing on 21 April 2009 in respect of the claim made by Contact Energy Limited (Contact) do not constitute a UTS.
3. The decision was made by the Undesirable Trading Situation Committee (Committee), being the committee of the Commission to which decision-making under Part 3 of the regulations has been delegated. The membership of that Committee comprises all members of the Board of the Commission.

Claim of Undesirable Trading Situation by Contact

4. On Thursday 30 April 2009 Contact claimed the existence of an undesirable trading situation (UTS) in respect of prices for trading periods 37 and 38 on Tuesday 21 April 2009.
5. In its claim Contact stated that it did not believe that:
 - (a) the pricing solution calculated by the pricing manager reflected actual market conditions;
 - (b) the price of approximately \$4,000 (at the Central Park node) represented the intersection of supply and demand; and
 - (c) the price outcome reflected the physical capability of the Wilton T8 transformer.
6. Contact estimated that if these prices became final prices it would have approximately \$0.3m "exposed".
7. Genesis Energy (Genesis) wrote a letter supporting Contact's UTS claim. Genesis estimated that the prices, if published as final, would result in approximately a \$0.5m loss.
8. Meridian Energy (Meridian) has informed the Commission that it does not agree that a UTS exists.

Action by Commission

9. On 21 April 2009 high loadings on Wilton T8 transformer (WIL T8) for trading periods 37 and 38 (periods beginning 18:00 and 18:30 respectively) resulted in high spring washer prices being calculated.
10. Contact expressed concern about these prices and Commission Staff held discussions with Contact, the system operator and the pricing manager. To ensure that a proper investigation take place the Commission ordered that the publication of final prices for 21 April 2009 be delayed.
11. Following the ordered delay to the publication of final prices for 21 April 2009 a report from the pricing manager was requested and questions were posed to the system operator. The pricing manager's report and the system operator's response have been posted on the Commission's website.
12. The reports from the pricing manager and system operator indicated that the inputs and processes used in the calculation of the final prices were correct according to the Electricity Governance Rules 2003 (Rules). After considering the matter and these reports, the Commission Board authorised the publication of the final prices for 21 April 2009.
13. Contact was still concerned about the prices and prior to the publication of the final prices claimed a UTS. The Commission then ordered the continued delay of final prices in order to investigate the claim.

Events and information relevant to the UTS claim

14. On 21 April 2009 there was a planned outage of the Mangamaire-Woodville circuit (MGM-WDV). This outage was planned to occur between 07:00 and 18:30.
15. Because of the high demand on the day the system operator decided to utilise the special offer provisions that accompany WIL T8 during other outages and re-rated WIL T8 to its post contingent rating (PCR) of 139MW for the period 07:45 to 18:29.
16. Just after 17:00 the grid owner revised the offer for MGM-WDV to return it to service at 17:30 (one hour earlier than planned). WIL T8 was accordingly returned to its default maximum continuous rating (MCR) of 110MW from 17:30.
17. At 17:22 the system operator observed that the loading on WIL T8 was fluctuating just below 95% of the default rating. At 17:59 the loading was observed at being in the range of 105-109MW and at 18:42 the decision was made to invoke the grid owner's offer provisions for the overloading WIL T8 and remove it from service.

18. WIL T8 was physically removed from service at 18:43 and physically returned to service at 20:56.
19. When calculating prices for 21 April 2009 the pricing manager states that it correctly modelled WIL T8 as required by the Rules (i.e. modelled as being in service and rated at 110MW) for trading periods 37 and 38.
20. The first pricing solve resulted in deficit generation infeasibilities for these two trading periods and when these were removed a high spring washer price (HSWP) situation arose.
21. To resolve the HSWP situation the pricing manager followed the process specified in the Rules. The Rules are not intended to necessarily remove the presence of spring washer prices but rather to check that minor metering or modelling inaccuracies are not causing the spring washer.
22. In this case spring washer prices still existed for both trading periods after the completion of the resolution process. The resulting prices would have been published as final prices except for the order to delay. The Commission, however, did publish a file of these prices to inform participants of what the prices would be if they had been published as final.
23. These “would-be final prices” were at their highest approximately \$4,200 at Central Park and at their lowest approximately -\$990 at Wilton. There are no negative prices at generation nodes.
24. To date no participants have alleged any rule breaches in relation to the events on 21 April 2009 or in relation to the calculation of prices.

Contact’s specific concerns

25. Contact specifically requested that the Commission verify “that the SPD inputs (in particular the resistances/reactances of all lower North Island circuits) are correct before proceeding with the spring washer methodology as prescribed in the EGRs”.
26. The system operator has indicated that checking the resistances and reactances for all lower North Island circuits would be a significant exercise which would take a long period of time. The HSWP rules require the HSWP situation to be resolved within two business days. Checking the resistances and reactances before proceeding with the high spring washer methodology would delay pricing for potentially a number of days and would certainly mean that the situation could not be resolved within the time limit required by the Rules.

27. Contact expressed the opinion that high spring washer prices are “no more than mathematical curiosities that only damage the integrity of the market and put purchases at undue risk”. It “implored” the Commission to “implement options to cap prices at levels that are:
- (a) Simple to understand
 - (b) Intuitively represent the aggregate supply/demand balance (rather than complex transmission trade-offs)
 - (c) Inline with levels that a supplier is willing to sell at” (sic).

Is there an undesirable trading situation?

28. The definition of undesirable trading situation is set out in regulation 55(1) of the regulations which states:

“(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 the trade; and*
- (b) that, in the reasonable opinion of the Board, cannot satisfactorily be resolved by any other mechanism available under the rules.”*

29. Regulation 55(2) provides examples (without limitation) of the types of circumstances that may constitute an undesirable trading situation. It is not necessary that the contingency or event falls into one of the categories listed in regulation 55(2). Regulation 55(2) merely suggests the types of situations in which an undesirable trading situation may be considered to have occurred.

30. Regulation 55(2) states:

“(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.”*

31. The Commission does not consider that the circumstances giving rise to the UTS claim by Contact fall within any of the specific situations described in paragraphs (a) to (e) of regulation 55(2).
32. The Commission therefore needs to consider whether the test in regulation 55(1)(a) has been satisfied. Here the Commission is required to first consider whether the circumstances giving rise to the UTS claim threaten, or may threaten, trading on the wholesale market for electricity and that would or would be likely to preclude the orderly trading or proper settlement of trades.
33. The regulations do not set out what is meant by “threatening” trading on the wholesale market. The Commission considers that, for an event to be considered as threatening (or possibly threatening) trading on the wholesale market, the event must be such that participants’ confidence in the market is significantly affected, that daily trading is affected by withdrawal (or likely withdrawal) of participants, or similar such circumstances.
34. As the Commission has previously stated, very high or very low prices do not of themselves indicate a threat to orderly trading. Neither is the presence of a HSWP of itself considered to be abnormal or unusual.
35. Spring washers are valid solutions from the scheduling, pricing and dispatch model (SPD) and reflect the laws of physics on power sharing through circuits. The intention of the HSWP rules is to check that the solution is valid and that there are no minor metering or modelling inaccuracies that are causing the high spring washer. The rules are not intended to remove the high spring washer prices (or the “anomalous effects of the modelled constraint” as Contact states in its claim).
36. The fact that a HSWP still existed after the related recalculation processes under the Rules does not of itself mean that such process has not been applied correctly or that valid prices have not been produced.
37. Nothing about the circumstances of the calculation of the final prices can be said to threaten trading on the wholesale market in the sense that participants’ confidence in the market does not appear to have been or is likely to be affected to an extent that daily trading is being withdrawn (or likely to be withdrawn). Settlement is expected to be orderly albeit with some prices higher than might ordinarily have been expected.
38. The Commission therefore considers that the criteria set out in regulation 55(1)(a) have not been met in relation to the UTS claim.
39. Accordingly, because the first limb of regulation 55(1) has not been met and in order for a UTS to exist both limbs must be met, the Commission does not need to

consider whether the second limb of regulation 55(1) (that the case cannot be satisfactorily resolved by any other mechanism under the rules) has been met.

Remedies

40. As the Commission's finding is that a UTS does not exist, it has not examined possible remedies under regulation 56 in detail. However, it is worth noting that the Commission is looking at the issue of caps on prices under its Market Design Project and that pricing inputs are being reviewed as part of the Pricing Process Improvement Project.

Conclusion

41. The decision of the Commission is that the circumstances of 21 April 2009 giving rise to the UTS claim by Contact do not meet the regulatory requirements for an undesirable trading situation.

**Electricity Commission
Wellington
21 May 2009
UTS Decision 9**