

**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 19 May 2009**

UTS Decision 10 dated 5 June 2009

## **Decision of the Electricity Commission pursuant to Part 3 of the Electricity Governance Regulations 2003 regarding an alleged undesirable trading situation on 19 May 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 19 May 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 21 May 2009 Contact claimed the existence of an undesirable trading situation (UTS) in respect of prices for trading period 16 on Tuesday 19 May 2009.
5. The claim is related to high spring washer (HSW) prices that were calculated for trading period 16 for the North Island.
6. The claim is similar to Contact's two previous claims (viz those for prices on 13 February 2009 and 21 April 2009, where HSW prices also existed) and contains no new supporting information.
7. In its claim Contact stated that it did not believe that:
  - (a) the pricing solution calculated by the pricing manager reflected actual market conditions; and
  - (b) the price of approximately \$6,200 (at the Masterton node) represented the intersection of supply and demand.
8. Contact also stated that it believed high spring washer prices did not benefit the market and that the outcome was unacceptable to market participants.
9. Contact estimated that if these prices became final prices it would have approximately \$0.6m "exposed".

### **Action by Commission**

10. When it received the UTS claim the Commission ordered the delay to the publication of final prices and final reserve prices for 19 May 2009 to ensure that all remedies remained open to it should a UTS be found.
11. The Commission held discussions with Contact and requested a report from both the pricing manager and the system operator on the events and price calculations for trading period 16 on 19 May 2009.
12. In its report the pricing manager stated that it was satisfied that the prices calculated for 19 May that would be final prices except for the Commission's ordered delay were correct according to the Electricity Governance Rules 2003 (Rules) to the extent that:
  - (a) the pricing process was performed correctly;
  - (b) the actions undertaken to resolve the high spring washer price situation were correct; and
  - (c) the inputs used in the pricing process were correct.
13. The system operator's report outlined the sequence of events that led to the HSW prices. It also stated that to verify the resistance and reactances of all lower North Island circuits (as requested by Contact) would be a significant exercise which would take a considerable period of time. It did verify that the modelling data for the key circuits from Haywards to Tokaanu was in accordance with the latest grid owner offers.
14. The pricing manager's and the system operator's reports have been posted on the Commission's website.
15. 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).

### **Events and information relevant to the UTS claim**

16. In the morning of 19 May 2009 there was an unplanned outage of the HVDC link. This meant that the load for the Wellington area had to be supplied from north of Wellington rather than via the HVDC.
17. At the same time there was a planned outage on the Bunnythorpe Tokaanu circuit 1. However, because of the high loadings in the Wellington area the system operator decided to recall this circuit.

18. The grid owner revised its offer at 06:20 for the circuit to return to service at 08:00.
19. Before the circuit was returned to service the high morning peak loads caused one of the constraints in the scheduling pricing and dispatch model (SPD) to bind. This constraint, identified in SPD as BPE\_TKU\_1\_W\_O\_4Aof5\_z, is designed to protect the Bunnythorpe Tokaanu circuit 2 from overloading in the event of the Rangipo Tangiwai circuit tripping while BPE\_TKU1 is out of service. The system operator monitored the situation and re-rated the constraint during trading period 16 (period starting 0730) according to its standard procedures.
20. The Bunnythorpe Tokaanu circuit 1 was returned to service just before 08:00.
21. Dispatch prices and 5-minute prices for trading period 16 indicated the presence of a high spring washer.
22. On Wednesday 20 May the pricing manager published provisional prices for 19 May because of a metering situation in the first pricing solve. When the metering situation was resolved a high spring washer price (HSWP) situation emerged for trading period 16.
23. 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.
24. In this case spring washer prices still existed 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.
25. The indicative final prices were the highest at Masterton at \$6264. The lowest indicative final price was \$0.02 at Tokaanu and the next lowest was \$911 at Waipawa. Most of the North Island prices exceeded \$1000. There were no negative prices. There was no evidence of the spring washer in the South Island and prices there were all less than \$1.
26. On 21 May Contact claimed that a UTS existed. To ensure that all remedies remained available should a UTS be found the Commission, on the same day, ordered that the publication of final prices for 19 May 2009 be delayed.
27. To date no participants have alleged any rule breaches in relation to the events on 19 May 2009 or in relation to the calculation of prices.
28. 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”.

29. Checking the resistances and reactances for all lower North Island circuits before proceeding with the high spring washer methodology would be a significant exercise which would take a long period of time, potentially a number of days. To require such a check would extend the period for calculating prices which in turn would require a change to the Rules (to extend the allowable period for resolving HSW price situations).
30. 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) Consistent with levels that a supplier is willing to sell at; as such prices should be capped at the loss adjusted equivalent of the highest cleared offer price.

#### **Is there an undesirable trading situation?**

31. 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.”*
32. 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.
33. 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.”*

34. 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).
35. 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.
36. 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.
37. 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.
38. 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 HSW price 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).

39. The fact that a HSW price 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.
40. 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.
41. The Commission therefore considers that the criteria set out in regulation 55(1)(a) have not been met in relation to the UTS claim.
42. 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**

43. 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 Development Programme and that pricing inputs are being reviewed as part of the Pricing Process Improvement Project.

### **Conclusion**

44. The decision of the Commission is that the circumstances of 19 May 2009 giving rise to the UTS claim by Contact do not meet the regulatory requirements for an undesirable trading situation.

**Electricity Commission  
Wellington  
5 June 2009  
UTS Decision 10**