

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 period 33 on 5 November dispatch prices for the Auckland region reached ~\$45,000/MWh. This price is at least 250 times higher than the highest offer price for this trading period.*
2. *Accordingly, Contact does not believe that*
 - a. *this solution reflects actual market conditions; or*
 - b. *the figure of \$45,000 represents the intersection of demand and supply.*
3. *Declaring a UTS allows this situation (or potential error) to be reviewed in detail by the System Operator and the Electricity Commission prior to the publication of a Final Price or the commencement of the new spring washer price adjustment methodology.*

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

4. *Whilst the new spring washer correction rules exist, these rules do not guarantee that this particular pricing anomaly will be corrected due to the methodology prescribed by the EGRs.*

5. *The intention of this new rule is to remove the anomalous effects of a modelled constraint however the methodology only allows for one adjustment to the right hand side of the binding security constraint. Contact believes that this may not correct the anomaly and as such participants have no idea what their exposure may have been during this period or what action is required to avoid similar modelling anomalies during subsequent trading periods.*
6. *This level of uncertainty is unacceptable to market participants and undermines the credibility of the price setting mechanism.*

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:

7. It is paramount that Final Prices are consistent with intent of the springwasher rule change: the highest price in the market cannot be greater than five times the price of the highest cleared offer.

8. In addition to this, Contact requests that the Electricity Commission verifies that the SPD inputs are correct before proceeding with the spring washer methodology as prescribed in the EGRs.

WHEN CLAIMED UTS OCCURRED

Date: 5th of November 2007

Time: Trading period 33

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 ~\$7m 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.