

19 August 2020

Submissions  
Electricity Authority  
PO Box 10041  
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By email: UTS@ea.govt.nz

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## **Re: Consultation on UTS preliminary decision**

Nova Energy appreciates the thorough analysis undertaken by the Electricity Authority in its consideration of circumstances leading to the claim of an undesirable trading situation. It was apparent during that period of high inflows and storage levels that South Island (SI) electricity spot prices were at odds with a competitive environment where the hydro generators would be expected to be competing on price to have their generation fully dispatched.

### **Framework for analysis**

Nova finds that the framework used for the analysis to be robust. If anything, the Authority has been somewhat conservative in its assessment of the period in which the UTS should apply.

### **Factors considered**

Nova is satisfied that the Authority has given due consideration to the circumstances of the claim; in particular the uncertainties that traders may be operating under at the time. The offer prices from Meridian don't seem to reflect the fact that Meridian had multiple sites spilling water and at the same time had additional generation capacity available during the UTS period.

The SI hydro generators are of course expected to offer their generation in a way that maximises their revenues from the available water, but it has been widely understood that no generator should use its market power in a net pivotable situation to hold prices above what might be considered likely in a competitive market. That is irrespective of whether there is an enforceable breach of the High Standard of Trading Conduct rules under the Code.

If Meridian's offers under those circumstances are regarded as acceptable, then by extension it could withhold generation capacity and hold SI prices well above competing offers at any time, irrespective of the prevailing hydro inflows and storage.

### **Impact on Nova and Todd Generation Taranaki Ltd**

#### a) Retail

In the medium term, retail prices are set in expectation of the average wholesale spot prices under the full range of market conditions. The natural distribution of market conditions is expected to result in below average prices in the SI most of the time, interspersed with periods of very high prices during dry hydro conditions.

By its actions in December, in the absence of a response by the Authority, Meridian in effect increased expected long term average spot prices across the market, and in the SI in particular. This will have a direct impact on SI consumers through a pass through of higher prices by retailers over the long term, irrespective of whether retailers were hedged in the SI at the time or not.

#### b) Generation

Todd Generation Taranaki Ltd (TGTL) ran its McKee Peaker Units during the period in question. These units are committed to generate when spot prices are expected to exceed the cost of dispatch. Should the spot prices be revised downwards in response to the UTS, then the revised prices would many cases be below the cost of generation at the time.

Thermal generators in such circumstances should retain their original revenues, otherwise they will incur operating losses much of the period of the UTS claim; something for which they were never at fault.

Aside from the costs of generation, the higher prices also resulted in the use of gas that could have been reserved for higher value applications.

### **Conclusion**

Nova concludes therefore that the UTS claim is valid, and the Authority's work on the preliminary decision supports that.

Yours sincerely

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

Paul Baker

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