CLAIM OF UNDESIRABLE TRADING SITUATION (UTS)

CONTACT DETAILS

Reporting Organisation: Electric Kiwi

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Fax: N/A

WHEN CLAIMED UTS OCCURRED

Date: 2 June 2016

Time: 17:00 to 20:00 hours (TPs 35 – 40)

In addition to completing and emailing this form, please also notify the Authority by telephone at **04 474 2260**.

BASIS OF CLAIM

Why is this event an "undesirable trading situation"?

Please specify why a UTS is claimed – refer to the definition of a UTS set out below:

Clause 1.1(1) of the Electricity Industry Participation Code 2010 (Code) - Meaning of undesirable trading situation

undesirable trading situation means any situation—

- that threatens, or may threaten, confidence in, or the integrity of, the **wholesale market**; and
- that, in the reasonable opinion of the **Authority**, cannot satisfactorily be resolved by any other mechanism available under this Code.

Describe why in your view the claimed UTS is a situation that threatens, or may threaten, confidence in, or the integrity of, the wholesale market.

Figures 1 and 2 below show that at 11.54 on the 2nd of June Meridian rebid their offer for TP 36 and at 13:52 Meridian rebid their offer for TP 38

Figure 1 Meridian's record of rebidding leading up to TP 36 2 June 2016

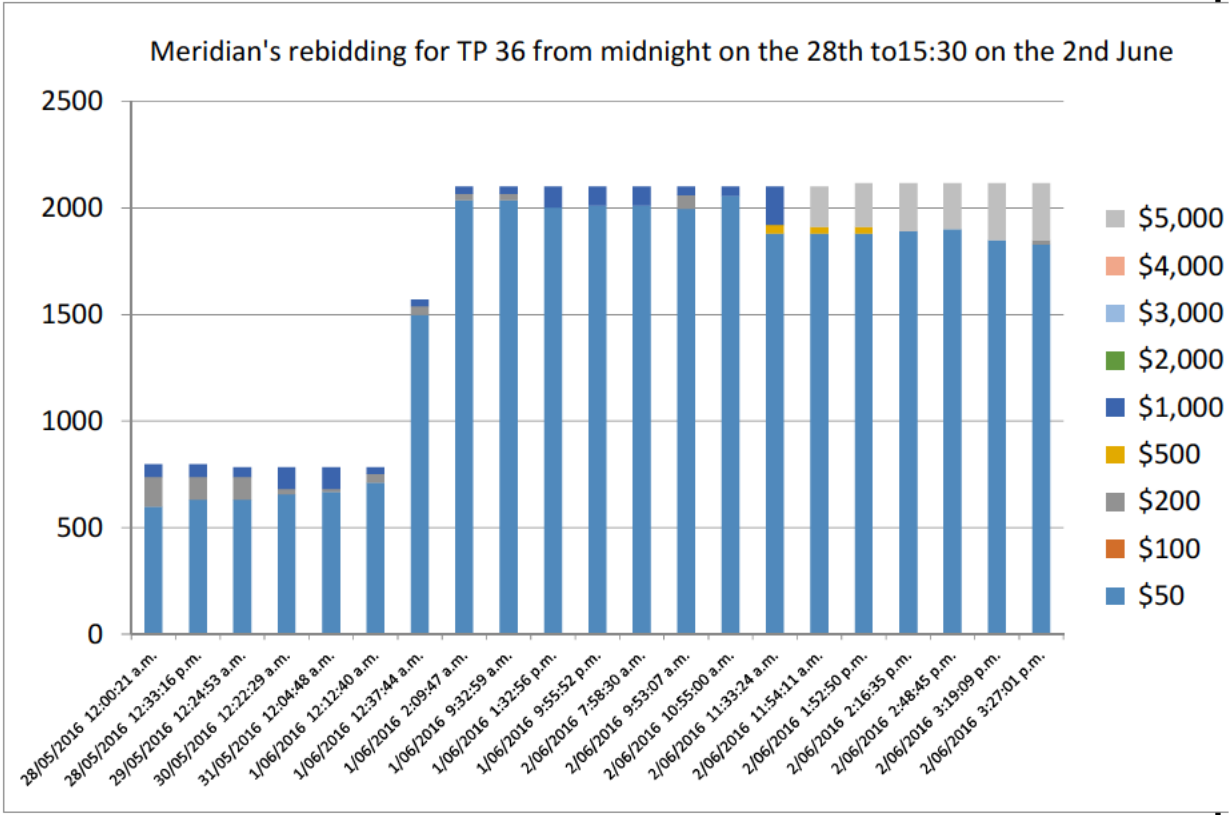


Figure 2 Meridian's record of rebidding leading up to TP 38 2 June 2016

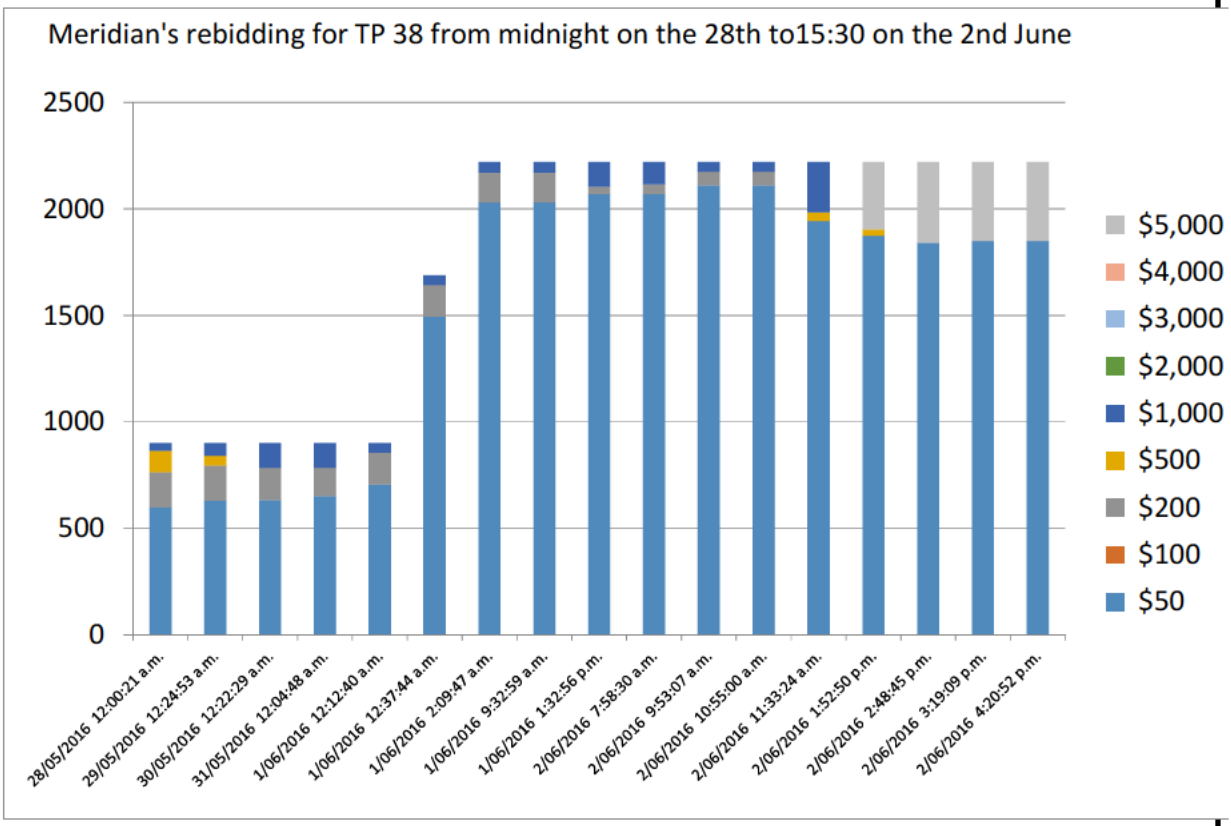


Figure 3 and 4 shows the difference between final offers and cleared prices on Wednesday 1 June and Thursday 2 June

Figure 3 Final offers and cleared energy for Wednesday 1 June 2016

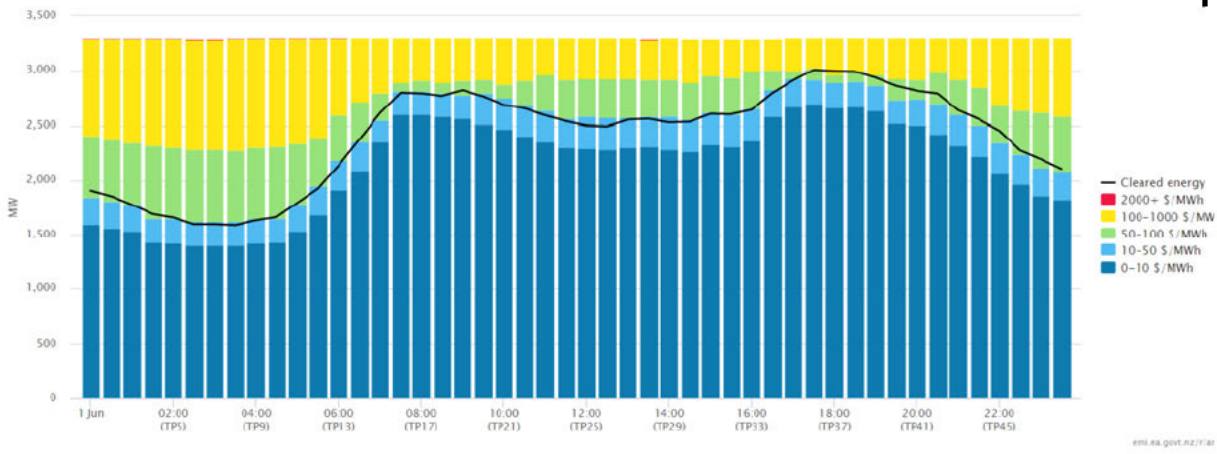


Figure 4 Final offers and cleared energy for Thursday 2 June 2016

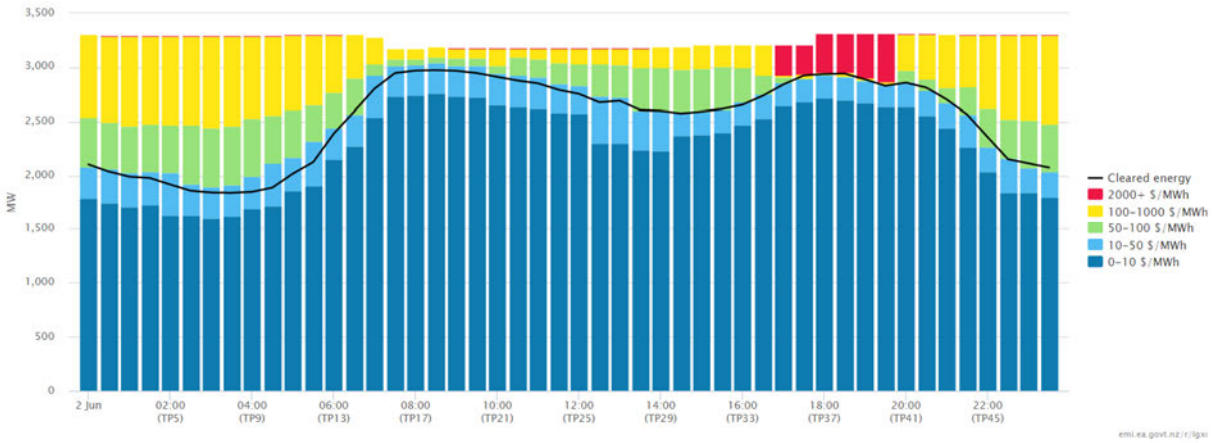


Figure 5 Cumulative South Island offer stack for Meridian 30 May – 2 June

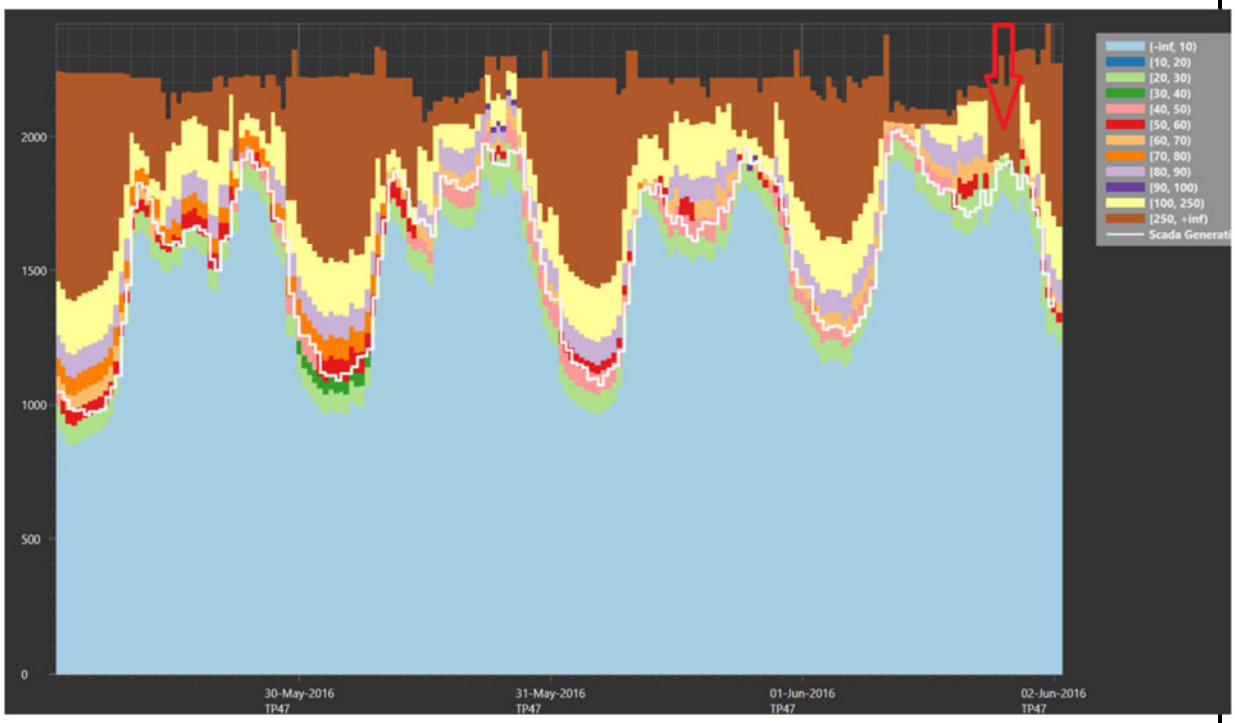


Figure 5 shows Meridian's final offer stacks for 30 May – 2 June From figures 1-5 we learn the following:

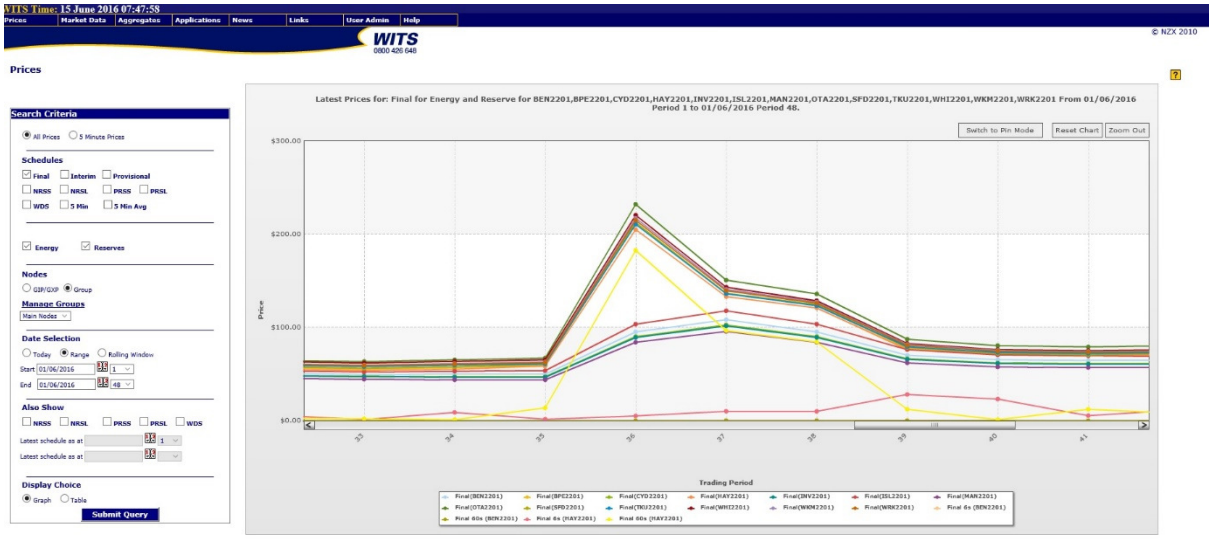
- Meridian changed their offer relating to TPs 35 – 40 through the middle of the day on June 2
- The altered prices for the offers could have been anywhere between what Meridian bid earlier and any level they chose because they were pivotal. By pivotal we mean that the total demand in the target TPs would not have been met if the generator had not submitted offers for all or any of its generating plant as per the definition in the Code.
- The fact that Meridian raised its offers to $5000 when it was net pivotal constitutes an undesirable trading situation as their action threatens, or may

threaten, confidence in, or the integrity of, the wholesale market; and cannot satisfactorily be resolved by any other mechanism available under the Code. That is to say there was no economic underpinning for the increase in offer price other than the fact that they could do so because they were pivotal.

Below we trace the timeline of key events leading up to Meridian's offer changes.

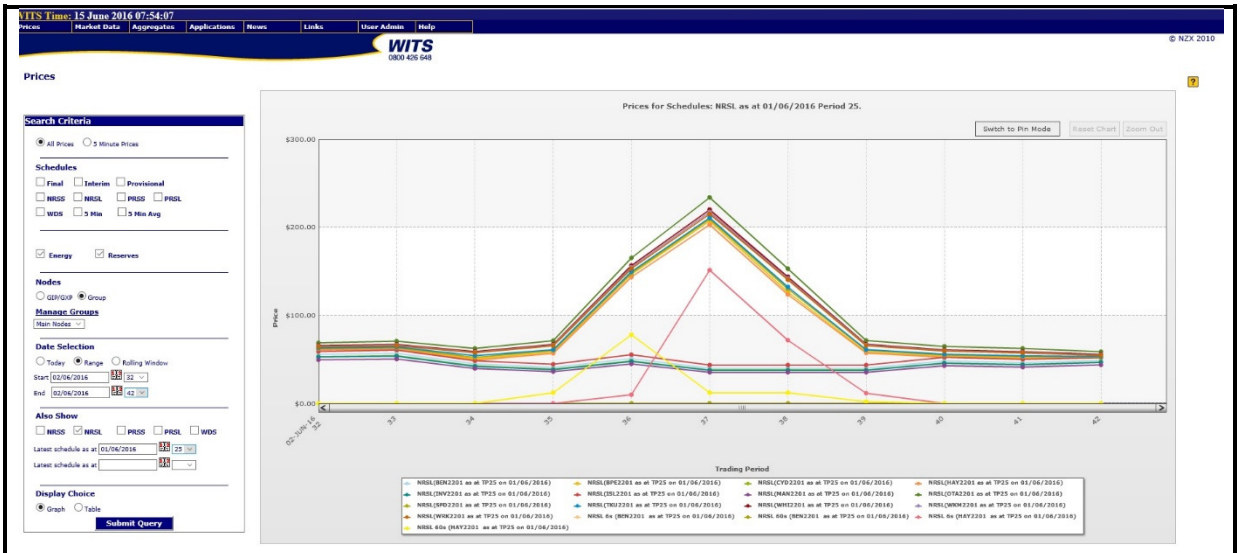
Wednesday, 1 June, final prices

Prices separated in the evening peak on Wednesday, 1 June but at a relatively moderate level.



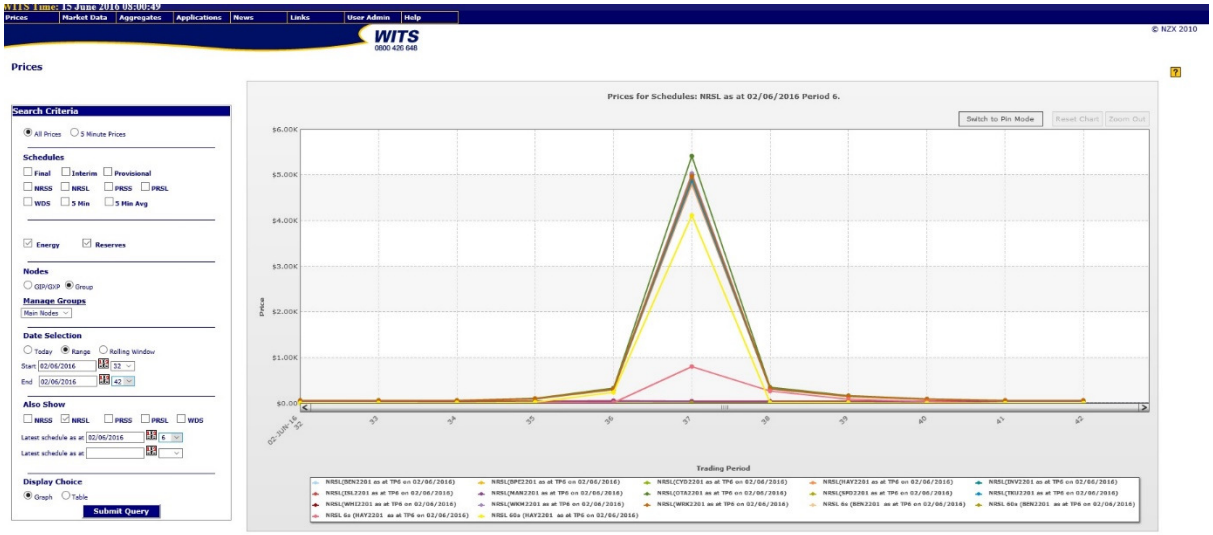
Wednesday, 1 June, NRSL prices, runtime period 25 (for 2 June)

Thursday was very similar conditions to Wednesday and price separation for the evening of 2 June was evident in every NRSL, starting on 1 June.



Thursday, 2 June, NRSL prices, runtime period 6

In period 6 prices in the North Island jumped from $200 - $300/MWh in the evening peak to around $5,000/MWh. The peak price stayed over $4,000/MWh in the North Island for the rest of the schedule and into final prices.

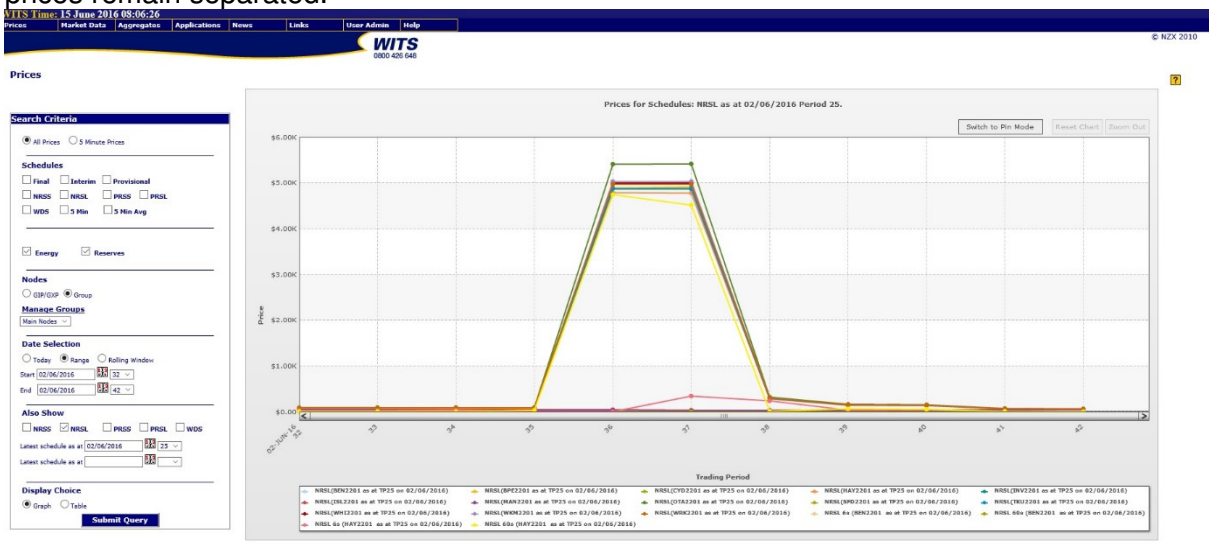


Our understanding of the situation is that the North Island was close to a shortage of n-1 capacity. As a result the North island needed significant South Island generation to be sent across the HVDC. This in turn was constrained by a shortage of, primarily, 60s reserve in the North Island where any number of reserve providers were probably pivotal in that the demand for reserve could not have been met without them. Fundamentally, there was little generation capacity available to relieve the HVDC flows, which is likely to have caused the price leverage that resulted in the very high North Island prices in period 36. This meant that Meridian had to supply the South Island and meet the North island capacity to the extent that it could be dispatched across the HVDC. Meridian was pivotal for energy in both the

North and South Islands and many providers were probably pivotal for NI 60 second reserve.

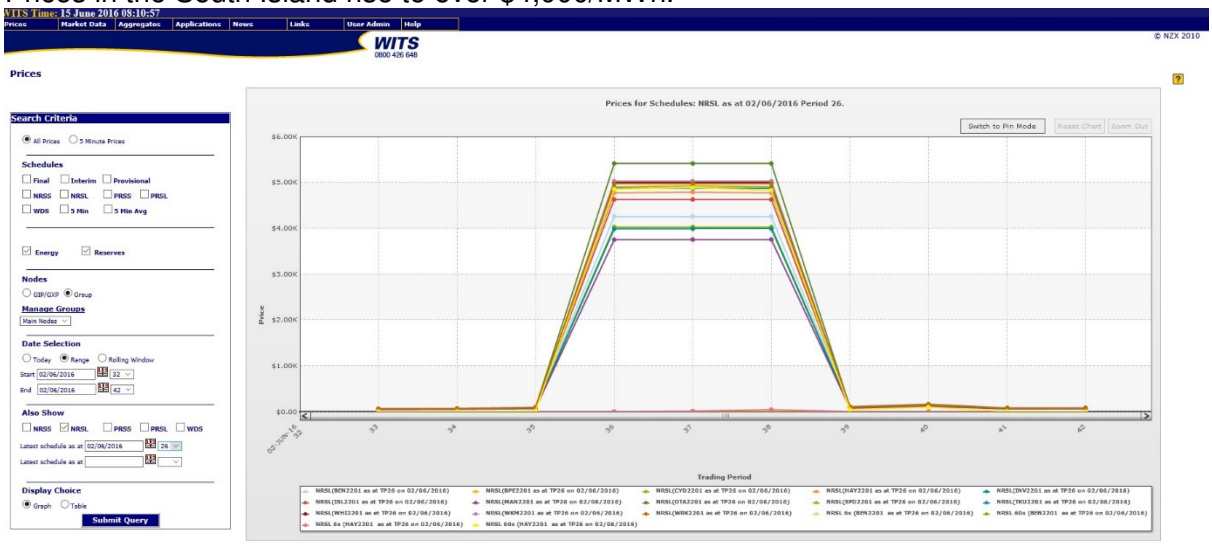
Thursday, 2 June, NRSL prices, runtime period 25

Meridian move significant volumes from low priced tranches to a [>$4,000] tranche but prices remain separated.



Thursday, 2 June, NRSL prices, runtime period 26

Prices in the South Island rise to over $4,000/MWh.

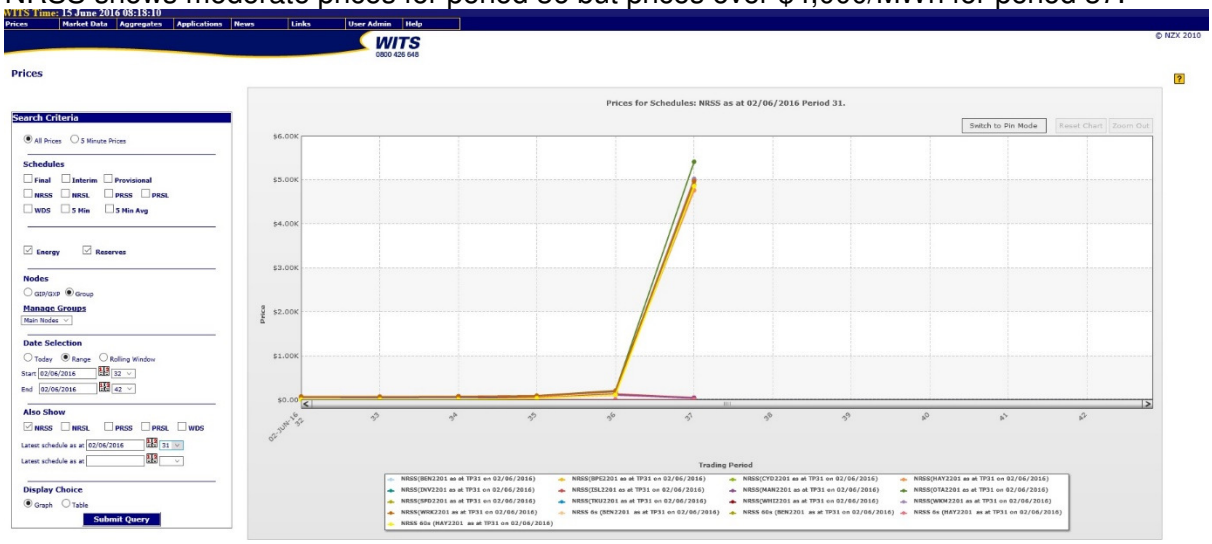


We understand that by now North Island dispatch was setting prices in the South Island. This implies that generation in the South Island could be displaced by North Island generation. This is true at the margin. There was sufficient generation in the North Island for Meridian to offer its capacity in a way that marginally relieved the HVDC reserve constraint

while the North Island maintained a higher price. North Island dispatch still needed to maximise HVDC transfer.
The test for pivotal is whether, if Meridian had not submitted offers for all or any of its generating plant then demand could not have been met in the North or South Islands. That condition is met here.

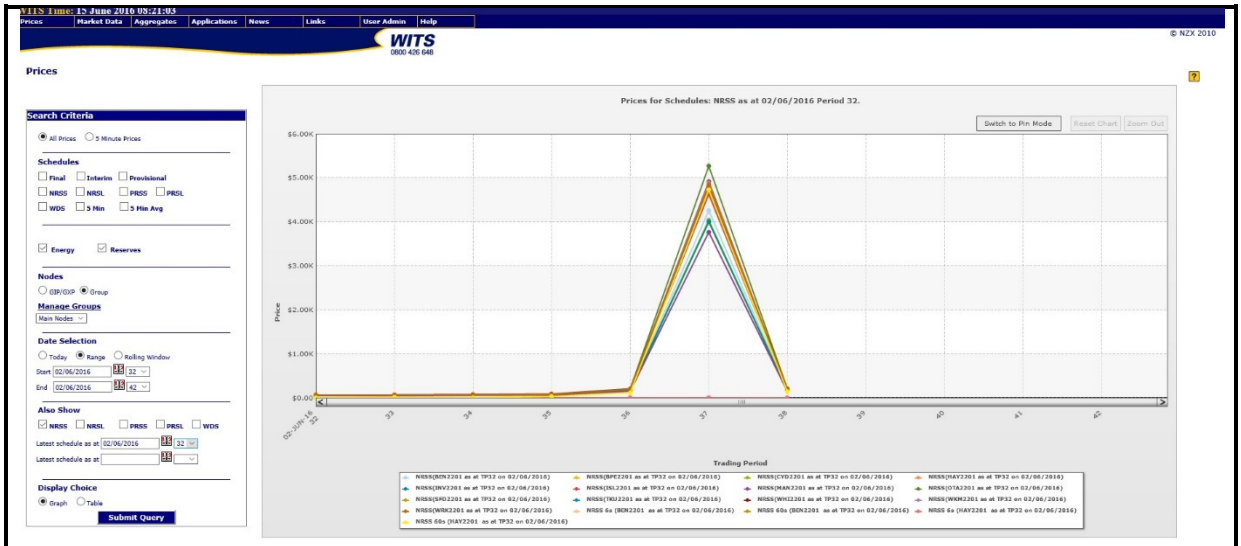
Thursday, 2 June, NRSS prices, runtime period 31

Prices remain over $4,000/MWh in the NRSL but the first NRSS that applies for period 36 shows no price separation even after Meridian had increase their offer prices. The next NRSS shows moderate prices for period 36 but prices over $4,000/MWh for period 37.



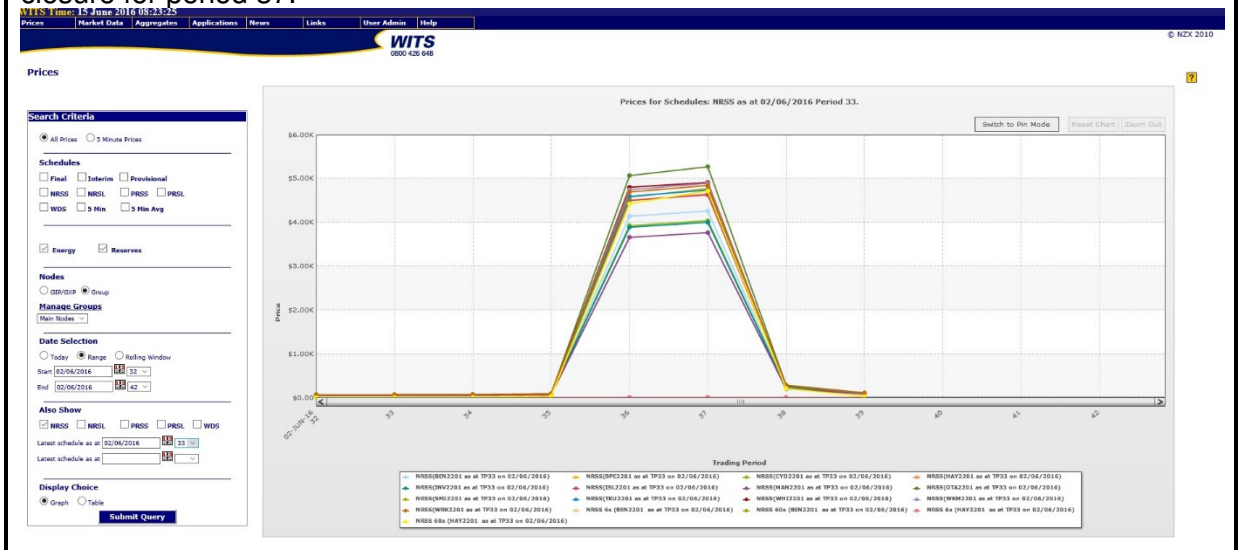
Thursday, 2 June, NRSS prices, runtime period 32

The next period shows high prices for period 37 but moderate prices for periods 36 and 38. Gate closure for period 36.



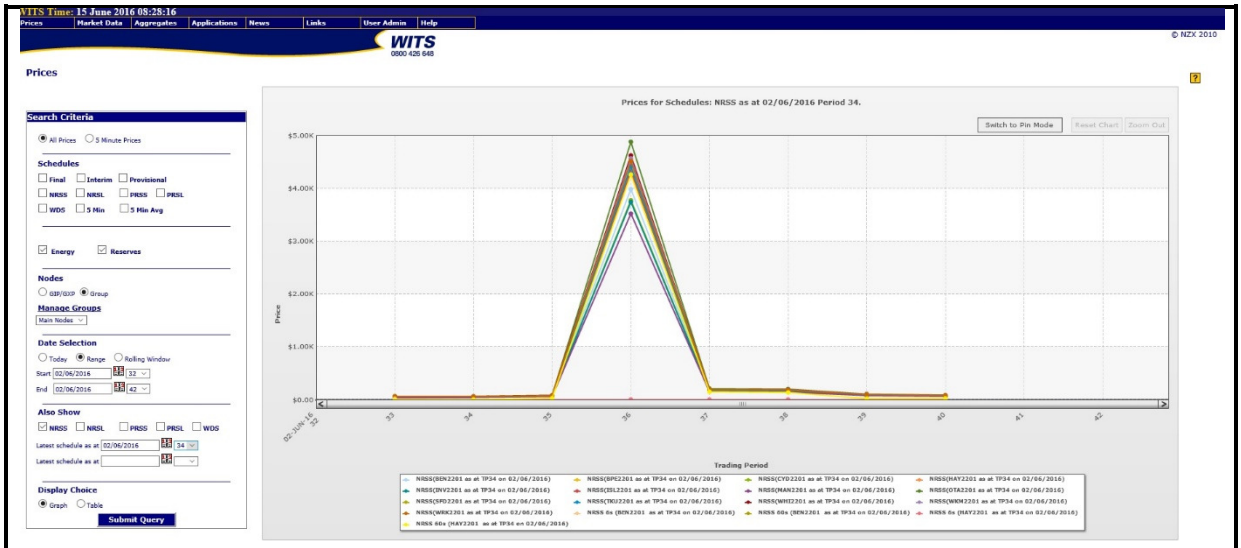
Thursday, 2 June, NRSS prices, runtime period 33

The next period prices lift in period 36 as well as 37. Period 38 remains moderate. Gate closure for period 37.



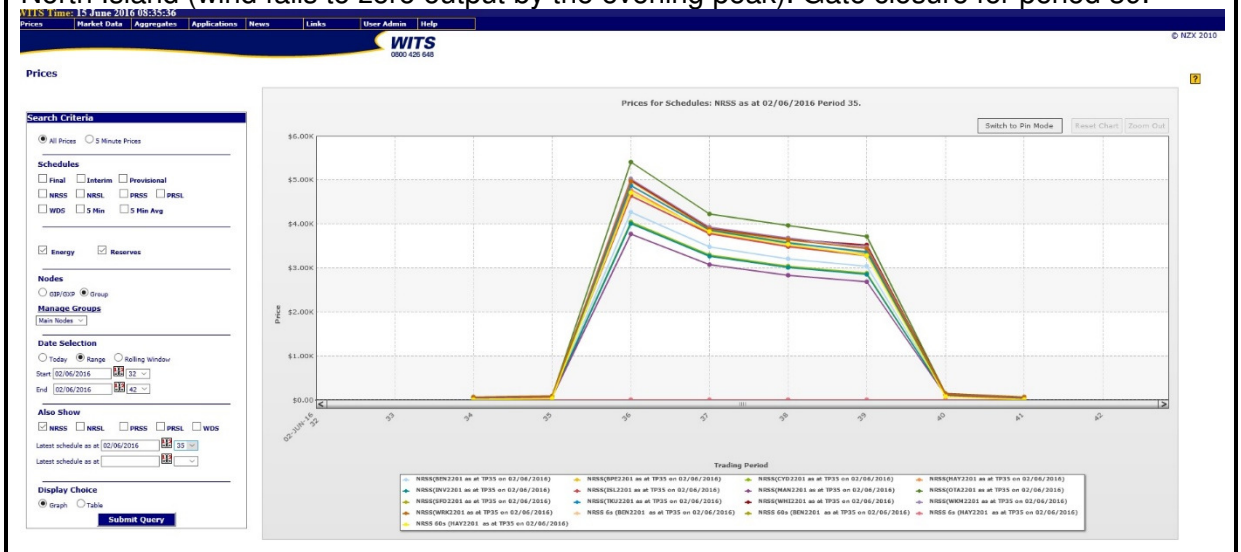
Thursday, 2 June, NRSS prices, runtime period 34

Prices ease for period 37 but period 36 remains high. Gate closure for period 38.

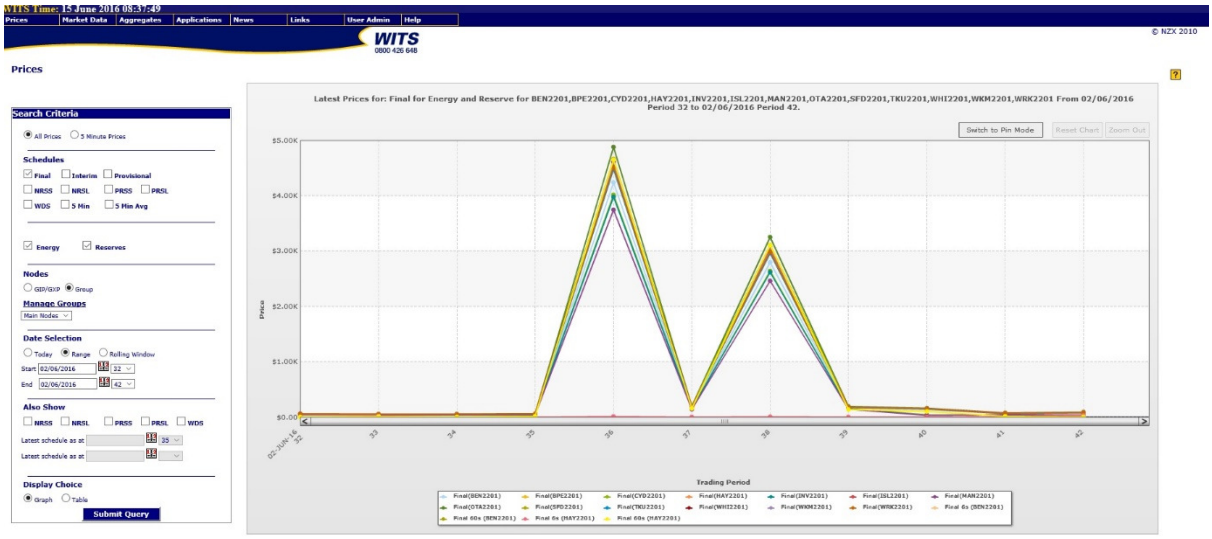


Thursday, 2 June, NRSS prices, runtime period 35

Prices separate for periods 36 to 39, possibly due to steadily decreasing wind forecast in the North Island (wind falls to zero output by the evening peak). Gate closure for period 39.



Thursday, 2 June, Final Prices



Electric Kiwi submits that the final prices in TPs 36 and 38 were the result of Meridian's actions when it was pivotal and that their actions constitute an undesirable trading situation.

We may learn a little from comments quoted on website Stuff as coming from Mike Roan, the Manager of Wholesale Markets at Meridian regarding what was on Meridian's mind when they made their changes to their offer. We note that comments in the media cannot be relied on entirely but what he is quoted as saying is telling:

Mike Roan, manager of wholesale markets at Meridian Energy, said it was not correct that Meridian removed low-priced offers from the market.

"Supply from those hydro facilities on July 2 was very similar to that on July 3, and other days of the week, so it is not correct that we altered supply on that night.

"Changes to our offers were made earlier in the day in response to forecast low wind output in the North Island and high winter demand. The actual pricing calculations are quite complex and during times where supply is stretched to meet demand, prices can and do often lift."

Source; http://www.stuff.co.nz/business/81056892/some-households-may-have-paid-20-more-in-one-night-for-power-after-prices-spiked

To summarise our view from the analysis of offer prices, the time line of prices shown to the market and Mike Roan's comments:

- North Island prices were initially high for the evening peak of 2 June but no higher than the day before

- North Island prices for the evening peak increased significantly from period 6 on June 2
- South Island prices were initially relatively low in the evening of June 2 compared with prices in the North Island
- Meridian may have been exposed to selling in the South Island and buying in the North as indicated by the fact that Mike Roan's comments on website Stuff highlighted conditions in the North Island to explain their thinking in the South Island
- Meridian was pivotal in the South Island
- Through the day on June 2 Meridian acted to remove the constraint on prices between the South Island and the North Island by raising South Island prices
- Regardless of their commercial rationale they were net pivotal, they raised their South Island offer in a net pivotal situation and created an undesirable trading situation.

On this basis Electric Kiwi concludes that this situation was one that threatens, or may threaten, confidence in, or the integrity of, the wholesale market. That is that Meridian manipulated South Island prices during the North island peak shortage of 2 June knowing that they were net pivotal and knowing that prices would be higher than would have been the case had they not been net pivotal and not changed their offers once they identified that situation.

AND describe why in your view the claimed UTS could not be satisfactorily resolved by any other mechanism available under the Code.

Electric Kiwi believes Meridian may be in breach of Clause 13.5A and is not covered by Clause 13.5B. We do not believe that Meridian has breached any other rule. Under the definition of an undesirable trading situation.

"(b) that, in the reasonable opinion of the Authority, cannot satisfactorily be resolved by any other mechanism available under this Code (but for the purposes of this paragraph a proceeding for a breach of clause 13.5A is not to be regarded as another mechanism for satisfactory resolution of a situation)"

Therefore, we conclude that the claimed UTS cannot be satisfactorily resolved by any other mechanism available under the Code.

The provisions of clause 5.2 of the Code allow the Authority to remedy the UTS by directing that any trades be closed out or settled at a specified price.

Electric Kiwi has separately notified the Authority that Meridian may be in breach of Code clauses 13.5A (2) (a) and 13.5B (c) (i) (ii) (iii) with respect to the same circumstances.

SOLUTION SOUGHT BY APPLICANT

Clause 5.2 of the Code

Describe how in your view the claimed UTS could be resolved by the Authority, bearing in mind that clause 5.2 of the Code enables the Authority to take one or more of the following actions, should it find that a UTS does exist (please refer to the full text of clause 5.2 of the Code on the following page for more information):

- directing that an activity be suspended, limited or stopped, either generally or for a specified period:
- directing that completion of trades be deferred for a specified period:
- directing that any trades be closed out or settled at a specified price:
- directing a participant to take any actions that will, in the Authority's opinion, correct or assist in overcoming the UTS.

Electric Kiwi requests that the Authority:

1. Finds there was a UTS and takes appropriate disciplinary action on Meridian in the hope that this acts as a deterrent and they are less likely to do it again.
2. Directs that any trades be closed out or settled at a specified price as per clause 5.2 (2) (b).

Please send the completed form to uts@ea.govt.nz

Clause 5.2 of the Code - Actions Authority may take to correct undesirable trading situation

(1) If the **Authority** finds that an **undesirable trading situation** is developing or has developed, it may take any action that—

(a) the **Authority** considers is necessary to correct the **undesirable trading situation**; and

(b) relates to an aspect of the **electricity** industry that the **Authority** could regulate in this Code under section 32 of the **Act**.

(2) The actions that the **Authority** may take under subclause (1) include any 1 or more of the following:

(a) directing that an activity be suspended, limited or stopped, either generally or for a specified period:

(b) directing that completion of trades be deferred for a specified period:

(c) directing that any trades be closed out or settled at a specified price:

(d) directing a **participant** to take any actions that will, in the **Authority's** opinion, correct or assist in overcoming the **undesirable trading situation**.

(2A) A direction given to a **participant** under subclause (2)(d)—

(a) may be inconsistent with this Code; but

(b) must not be inconsistent with the **Act**, or any other law.

(3) The **participant** must comply promptly with a direction given to it in writing.

(4) A **participant** is not liable to any other **participant** in relation to the taking of an action, or an omission, that is reasonably necessary for compliance with an **Authority** direction under this clause.

(5) A **participant** does not breach this Code if it acts in accordance with a direction given under subclause (2)(d).