

CLAIM OF UNDESIRABLE TRADING SITUATION (UTS)

CONTACT DETAILS

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BASIS OF CLAIM

Definition of “undesirable trading situation”, clause 1.1 of the Code

Specify relevant paragraphs under which Participant claims a UTS - refer to the full definition set out below

New Zealand Steel Limited (NZS), as the third largest industrial consumer of electricity in New Zealand, claims that an Undesirable Trading Situation occurred in the North Island on 26 March 2011, being a contingency or event that fell within the following paragraphs of the definition of “undesirable trading situation” in clause 1.1 of Part 1 of the Electricity Industry Participation Code:

- a) an 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; and
- b) that cannot be satisfactorily resolved by any other mechanism available under the Code,

and that also constituted the following:

- c)(i) manipulative or attempted manipulative trading activity;
- c)(iii) unwarranted speculation or an undesirable practice; and
- c)(v) an exceptional or unforeseen circumstance that is at variance with, or that threatens or may threaten, generally accepted principles of trading or the public interest.

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.

The offer behaviour of Genesis Energy Limited (*Genesis*) during a planned transmission outage on circuits between Waikato and Auckland was opportunistic and unfair. Genesis took advantage of this outage to offer Huntly generation for dispatch at unprecedented prices. This behaviour is quite at odds with a well functioning competitive electricity market and undermines the viability of that market.

The resulting cost of the 26 March event to some market participants, including NZS, will be enormous. This will flow onto downstream electricity prices to end consumers and is likely to also affect the future hedge market which could increase to reflect the perceived risk of spot electricity prices increasing to similar levels in the future.

In such an environment, purchasers of spot electricity and the wider economy can have no confidence that electricity market mechanisms are functioning properly, absent clear steps being taken to restrain such extreme abuses of market power.

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

NZS is not aware of any other mechanism under the Code that can satisfactorily resolve this issue, and hence requests the Authority to use its powers under the Code to take immediate remedial action, and also requests the Authority to implement changes to prevent a recurrence.

SOLUTION SOUGHT BY APPLICANT

Clause 5.2 of the Code

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 the Code, any regulations, the Act, or any other law) that will, in the Board's opinion, correct or assist in overcoming the undesirable trading situation:

NZS requests that the Authority:

1. formally investigate the events of 26 March;
2. delay publication of final prices until that investigation has been completed;
3. direct that interim prices do not stand as final prices and direct that trades during the relevant 26 March periods be settled at specified final prices based on lowering Genesis' standing offer to a lower figure; and
4. consider making rule changes to ensure that such extreme market abuses of market power cannot reoccur.

WHEN CLAIMED UTS OCCURRED

Date: Saturday 26 March 2011

Time: 10:30 am to 5:30 pm

DESCRIPTION CIRCUMSTANCES AND IMPACT

Please provide description of the circumstances surrounding the claim and include a detailed description of the impact the notifying participant suffered as a result of the claimed UTS.

NZS understands that planned maintenance was being undertaken on Transpower's three 110 kV circuits between Arapuni and Bombay and two 220 kV circuits between Otahuhu and Whakamaru on 26 March. This created a North Island constraint and additional generation was required. Genesis took advantage of this opportunity to offer Huntly generation for dispatch at unprecedented prices – in the region of \$20,000/MWh.

To NZS' knowledge, there was no good reason for the Huntly generation to have been offered at such extreme prices, and nothing that could justify such an abuse of transitory market power. There were no physical supply issues that day, and as far as NZS is aware, nothing new in Genesis' cost base. Such pricing simply could not be justified in a proper functioning competitive market.

The increase in electricity prices was observed by NZS in the early afternoon of 26 March. NZS was able to take some steps to mitigate the potential effects of it, but NZS has limited operational capability to reduce its demand significantly. However, NZS was able to burn additional natural gas in its cogeneration unit, thereby increasing its own on-site generation and reducing its spot purchase requirements. It also had the benefit of a previously contracted hedge, which had not yet expired. However, its electricity procurement personnel were not contacted by Genesis with any special hedging offers for the weekend in question,

Notwithstanding the foregoing, NZS estimates that the financial impact on its business of the 26 March events will be in the region of \$■■■ (excluding the increased cost of gas delivered by the onsite Air Separation Unit, operated by BOC Gases Limited, as a result of the increased cost of electricity), such electricity pricing (from both volatility and quantum perspectives), would place significant financial pressure on NZS, including further investment decisions and the long-term financial viability of the NZS business.

We understand this submission will be published, please keep all financial information confidential

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