

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

Mighty River Power claims a UTS on the basis of the following paragraphs of the definition of “undesirable trading situation” in clause 1.1 of Part 1 of the 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;
- (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.

Mighty River Power believes the events in the market on 26 March 2011 threaten, or may threaten, trading on the wholesale market for electricity and would, or would be likely to, preclude the maintenance of orderly trading or proper settlement of trades. In Mighty River Power’s view:

1. Participants’ confidence in the spot and hedge markets will be significantly affected by conduct of this type;
2. Because the UTS has had an impact of such financial magnitude, otherwise solvent participants in the market may become insolvent and unable to trade;
3. This event may set a new benchmark regarding many transmission constraints that arise from time to time as necessary maintenance and upgrading of lines is undertaken, particularly where these leave pricing in the hands of one generator; and
4. If this behaviour is considered acceptable in the market then participants may need to make significant changes to their net market positions which could result in over-investment in generation plant beyond optimum levels, increasing residential tariffs and leading to a significant loss of confidence in the electricity market in general.

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

1. Mighty River Power is not currently aware of any other mechanism available under the Code to address the claim in the first instance.
2. Whilst transmission/basis hedges can theoretically be used to mitigate constraint risk, we do not believe that this would have been a practicable mitigant in these circumstances.
3. Specific to this event we saw the potential for high prices (day ahead prices at approximately 12:45pm on Friday) for Saturday as a consequence of line maintenance outages and bidder offers. We sought hedge pricing from Genesis at approximately 3:50 pm on Friday and modified our spot offer structure for Saturday in an attempt to alleviate the high forecast spot prices. Prices offered from Genesis were Saturday day 50MW @ \$■■■■/MWh and a further 50MW @ \$■■■■/MWh. The issue is that the only company with sufficient spare capacity for hedges to provide us with some unconditional cover for the risk was also the same company controlling the spot pricing the next day. At approximately 4:45pm the modified spot offer resulted in forecast prices for Saturday reducing to a peak of \$160/MWh. (This remained the case until the constraint bound in real time at approximately 10:30am on 26 March). Shortly after 4.45pm on Friday we declined the hedge cover. The alleviation in day ahead prices from Friday evening until mid-morning on Saturday caused us to not reconsider hedge cover.

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:*

MRP requests that the EA:

1. Immediately launches an investigation to determine, as quickly as possible, a resolution to this situation and to restore certainty and confidence to the market.
2. Suspends the determination and publication of final prices until the investigation has been concluded.
3. Directs that the relevant trades be closed out or settled at prices that are appropriate in the circumstances.
4. Sets a very clear direction to participants in terms of market behaviour and practice to reduce the incentives regarding this behaviour going forward.

WHEN CLAIMED UTS OCCURRED

Date: 26 March 2011

Time: tp22 – tp35, 10:30am – 5:30pm

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.

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Maintenance to major transmission circuits between Waikato and Auckland limited the ability of the system to transmit generation originating south of Huntly to meet Auckland demand. This typically can result in prices reflecting the need to limit generation at the sending end of the constraint (i.e. low), while generation at the receiving end of the constraint (Huntly and north) typically face high prices which incentivise them to increase to meet the demand. Both Otahuhu and Southdown were fully dispatched.

Genesis appears to have deliberately caused the constraint to bind in two ways: Genesis actually increased generation at the Tokaanu plant (sending end of constraint) which exacerbated the problem, i.e. increased the chance that the constraint would bind, while also reducing the cleared generation at E3P (see NI Generation graphs attached). The other significant point to note is the very different pricing structures from the Genesis stations between 25 and 26 March. E3P cleared generation at \$19.05 on the 25th (ca. 350MW during the relevant periods), with top tranche priced at \$4,950, compared with the 26th where generation was clearing at \$19,750 (Genesis' price) and generation reduced to 250MW during the constraint. Huntly main station also increased pricing in its top tranches from \$4,990 to in excess of \$19,000.

It would appear that Genesis' conduct was carried out in order to take advantage of the constraint to the material disadvantage of other market participants as it has caused unprecedented prices into the Auckland region. This is clearly an undesirable practice that will affect many market participants.

The impact of this event is clearly of considerable financial magnitude, with losses at an EBITDA level to Mighty River Power during this event estimated at up to \$25m, being the net effect of generation revenue and the cost of purchases.

If the EA finds that there was no undesirable trading situation arising from this event, then there is a real prospect that participants may be encouraged to take advantage of similar circumstances in the future which would seriously impact all electricity retailers in the affected area, large industrials exposed to the spot market, consumers and investors.

Mighty River Power is happy to provide further information if this will assist the EA in its investigation.

Please send completed form to compliance@ea.govt.nz