

# 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*

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. Powershop advises the Electricity Authority (the Authority) that it claims that there was an Undesirable Trading Situation (UTS) from 10:30am – 5:40pm on Saturday 26 March 2011, arising from the blatant extreme exercise of transient market power by Genesis Energy Limited during planned maintenance on Transpower's North Island AC transmission network.
2. Should the Authority not rule this situation a UTS (and Genesis Energy's behaviour unacceptable) abuse of transient market power by all generators is effectively being endorsed and will become more widespread, resulting in:
  - a. Lessening of retail competition,
  - b. Tight geographic monopolies centered around generation assets,
  - c. Higher wholesale price volatility and risk, and,
  - d. Higher retail prices to all consumers.
3. Further, consumer confidence in the electricity industry and the credibility of the Authority as industry regulatory will be undermined if abuse of market power is seen to be tolerated.
4. Market participants ought to be able to make trading and risk management decisions against an expectation of a competitive market place, or one that is regulated to closely approximate one and where prices are determined by competitive processes. Orderly trading will be threatened if participants have no option other than to trade with counterparties that have the ability to exercise market power without restraint, albeit for transitory periods of time.

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

5. At the core of our concerns is compelling evidence that a market participant has exercised market power. This exercise of market power has implications for the trading periods affected, but also importantly for future trading and risk management decisions of all market participants. It is not apparent that the Authority has other provisions that would allow it to address the events and restore confidence within the market.
6. Powershop submits that the behaviour of Genesis Energy either does, or may meet the criteria set out in subclause (c) of the definition of an undesirable trading situation.

***undesirable trading situation means any contingency or event—***

...

*(c) includes, without limitation,—*

*(i) manipulative or attempted manipulative trading activity; and*

Comment: Genesis manipulated their offers to take advantage of transitory market power and price at levels approximating the value of lost load when there was sufficient capacity available to meet supply.

*(ii) conduct in relation to trading that is misleading or deceptive, or likely to mislead or deceive; and*

Comment: It is misleading to offer prices that reflect a risk to supply when sufficient capacity is available and no extra-ordinary security risk is apparent. Nor are such prices signals warranted to signal that any new investment might be required.

*(iii) unwarranted speculation or an undesirable practice; and*

Comment: Evidence clearly shows Genesis modified their offers to take advantage of transient market power; this is highly undesirable for the reasons noted previously in this submission.

*(iv) material breach of any law; and*

Comment: Powershop has not formed a view on, nor taken legal advice on what is a very complex area of the law, however, it is plausible that Genesis' behaviour **might** contravene s36 (or other sections) of the Commerce Act.

*(v) 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*

Comment: Opportunistic abuse of market power is clearly not in the public interest.

## **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:
1. **Powershop requests the Electricity Authority formally investigate the circumstances and events leading to extreme dispatch and provisional prices for Saturday 26 March 2011.**
  2. **Powershop requests the Electricity Authority to delay publication of final prices for 26 March 2011 until the investigation is complete.**
  3. **Powershop requests the Electricity Authority to defer adjustments to market participants' prudential cover until the investigation is complete.**
  4. **Powershop requests the Electricity Authority to review prices for Saturday 26 March 2011 and revise them to reflect a competitive and orderly market.**
  5. **Powershop seeks only restorative action of the Electricity Authority at this stage and is not seeking punitive measures. We do however recommend that the Electricity Authority make its expectations clear about mimicking competitive outcomes during future periods where market participants have transient market power, supported by rule changes to restrain exercise of market power if required.**

### **WHEN CLAIMED UTS OCCURRED**

Date: Saturday 26 March 2011

Time: 10:30am – 5:40pm

### **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.*

1. Dispatch prices during Saturday 26 March were extreme (in excess of \$19,000/MWh) for much of the upper NI for many trading periods during the day.
2. Provisional prices published on Sunday 27 March for trading periods on 26 March also indicated extreme pricing for the Upper NI, and to a lesser extent other parts of the NI. Low and at times negative pricing for Whakamaru demonstrated classic signs of the "spring washer effect".
3. An analysis of offer information for Saturday 26 March, and Saturday 19 March 2011 (for comparative purposes) highlighted that the underlying cause for the extreme prices was a deliberate change in offer behaviour by Genesis Energy at its Huntly site.
4. The attached chart demonstrates two key points:
  - a. Capacity that Genesis was prepared to sell at less than \$75/MWh only 1 week prior was now being offered in at prices in excess of \$19,500/MWh; this can only be explained as an opportunistic abuse of market power as there is unlikely to be a material change in short-run marginal costs (which a disciplined market would converge to) of the plant over a week.
  - b. There was significant amounts of capacity (up to 300 MW) available for dispatch at prices in excess of \$19,500/MWh; this highlights that there was never a physical supply issue – additional capacity was available for the whole day.
5. Based on provisional prices and estimated sales and residual load profile, Powershop estimates that our wholesale energy cost is approximately \$1.7m higher than we would ordinarily pay on a Saturday. This is a **significant** impact on a company of our size.
6. Powershop will be placed under significant cashflow pressure and will need to draw on emergency funding facilities if provisional prices become final.
7. While Powershop acknowledges that we are responsible for managing our own wholesale energy risk we make the following comments:
  - a. We take a conservative approach to managing underlying energy price risk, and for the month of March we are **fully covered** at a national level.
  - b. The market tends to have a seasonal bias resulting in an inability to cost effectively manage location risk throughout the year. In Powershop's case we tend to have a SI skew in "summer" (Oct – Mar). Our NI cover increases markedly on 1 April.
  - c. It is impractical to manage profile risk in the current market. Generally available instruments are typically contracts-for-difference at reference points. During such

extreme pricing events profiling risk can also be extreme. So even if we had fully covered our upper NI monthly volumes through commonly traded instruments we would have still had a material exposure to the extreme pricing.

- d. We expect to be able to make risk management decisions on the basis of a competitive market. The prices observed on Saturday 26 March do not reflect any real risk of shortage, nor a need for new investment. They serve no economic purpose and simply would not exist in a competitive market (or one where regulation restrains transient market power).

Please send completed form to [compliance@ea.govt.nz](mailto:compliance@ea.govt.nz)

## Genesis Huntly Offers

