



MAJOR ELECTRICITY USERS' GROUP

11 July 2006

Mr Roy Hemmingway
Chair
Electricity Commission
By email to roy.hemmingway@electricitycommission.govt.nz

Dear Roy

Finalising prices for and lessons learnt from TP35 and TP36 on 19th June 2006

1. The Major Electricity Users' Group (MEUG) welcomes the Electricity Commission (the "Commission") decision to consider what the final prices for trading period (TP) 35 and TP36 on 19 June 2006 should be.
2. The market has previously experienced final prices in the order of \$10,000/MWh due to spring washers. In those cases adversely affected buyers have tended to be localised and buyers elsewhere have had lower prices compared to the case had the spring washer not occurred. Spring washer events have generally been signalled with forecast localised infeasible prices. Anecdotal reports indicate that when nationwide or island wide infeasible prices have been forecast they have always been washed out by the time final prices are calculated.
3. However for TP36 on 19 June the nationwide infeasible price forecasts translated into New Zealand wide provisional energy prices of about \$10,000/MWh. It therefore appears the event that occurred in TP36 is something other than a spring washer and unlike any other event the market has experienced. Accordingly an investigation into how the event occurred and was managed warrants an investigation before final prices are posted.
4. Little information has been released on events leading up to and during TP35 and TP36 to allow interested parties to identify for certain why this event occurred. The information that is available does raise some questions. For example spot prices decreased significantly between TP36 and TP37 in all likelihood because the reserves market was suspended in TP37. This leads to the question of whether the reserves market should also have been suspended for TP36 (and possibly TP35). If so then prices for either TP35 and or TP36 should be rerun without solving for reserves.
5. Note that MEUG would be very concerned if spot prices were calculated as if reserves had been dispatched when in fact none were (or were for only part of a TP).
6. To establish whether the reserves market should have been suspended in TP 36 (or TP35) a detailed log of events just prior to and during TP35 and TP36 covering all aspects of the energy and reserves market should be collated. This would include all forecasts of demand and supply that the System Operator relied on in deciding 5 minute (or shorter duration if that occurred) dispatch instructions.

PO Box 8085, Level 8, Wakefield House, 90 The Terrace, Wellington, New Zealand
Telephone +64-4 494 0996, Facsimile +64-4 494 0997, Email info@meug.co.nz

7. Setting aside the above suggestion of a detailed investigation to determine final prices, MEUG also suggest an ex post review of information available to market participants is necessary to consider whether the information was sufficiently robust and trustworthy to allow an accurate assessment to be made of the impact that extreme prices may have on a market participant and for that market participant to determine what measures need to be taken to counter the impact.
8. As noted beforehand infeasible prices nationwide or even island wide have been experienced before but inevitably wash out. There was no indication this event would be any different. A Grid Emergency notice was issued 17:44 hours, and referred to the Grid Emergency commencing at 17:34 hours. There was no indication on the Grid Emergency notice of the potential pricing consequences; and even if there had been the notice was posted half way through TP36.
9. MEUG therefore also suggest a review of this event considering how communications might have been improved would be very useful. For example:
 - a) If the Demand Side Bidding and Forecasting proposals had been in place would they have helped market participants better assess and react in this case; and
 - b) Assuming the high spring washer price proposals the Commission has just finished consulting on were in place:
 - i) Would these proposals have been triggered in this case or not:
 - ii) If not then perhaps the Commission should revise the proposal so that they would apply; and
 - iii) Had the high spring washer price proposals been triggered what would have been the price impact?
10. In conclusion MEUG recommend an investigation by the Commission before final prices are decided for TP35 and TP36 on 19 June because this event appears to be new and process or computational errors may have occurred. In addition MEUG suggest a review of how the market reacted and how it might be improved should be undertaken. The sums of money involved for TP36 alone are several tens of millions if provisional prices become final prices compared to say TP37 final prices. Note that some MEUG members stand to lose if provisional prices become final prices, others stand to gain. What matters is the principle that the Commission and the market reach an informed view that the rules, the way they have been interpreted by service providers and the operation of SPD has worked correctly and this isn't some new quirk that needs and can be corrected now.
11. This letter is not confidential.

Yours sincerely



Ralph Matthes
Executive Director