



MAJOR ELECTRICITY USERS' GROUP

21 December 2006

Jenny Walton
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on proposed publication of reserve offers

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") consultation paper, *Publication of reserve offers*, published 30 November 2006.
2. The table attached responds to the questions raised by the Commission.
3. MEUG support the publication of reserve offers.
4. MEUG does not support the proposed delay of 2 weeks before reserve offers are published. Instead MEUG recommends both reserve offers and energy bids and offers be released the day after. The benefit of releasing this data earlier is that there will be greater transparency around short-term opportunistic pricing behaviour and this outweighs the risk of suppliers using the earlier released data to act collusively.
5. Some MEUG members will be making separate submissions to the Commission.

Yours sincerely

Ralph Matthes
Executive Director

Question	Comment	Proposed amendment
1. Do submitters agree that reserve offers should be published? Please provide an explanation for your response	Yes. Competition and innovation as well the opportunity for consumers to scrutinise the behaviour of suppliers will be facilitated by publication of this and similar information.	
2. Do submitters agree that the delay period for reserve offers should be the same as the delay period for energy bids and energy offers? Please provide an explanation for your response	Yes.	
3. Do submitters agree that a two-week delay period is the most appropriate? Please provide an explanation for your response	<p>No.</p> <p>MEUG does have concerns about the opportunity and exercise of market power by suppliers. But delayed publication of reserve data isn't the best solution to this problem and may even exacerbate the risk to consumers in some cases.</p> <p>With respect to using disclosed reserve offers, the risk of abuse of market power can range along a continuum from:</p> <ul style="list-style-type: none"> ▪ Sustained ongoing collusive and signalling behaviour that would be a breach of the Commerce Act; through to ▪ Short-term opportunistic pricing behaviour. This type of competitive "gaming" can be expected in spot markets. This doesn't breach the Commerce Act. Instead the best approach to mitigate such behaviour is a market response as early as possible. This will be facilitated by earlier release of relevant information such as bids and offers; rather than delaying publication of such information. <p>MEUG doesn't believe there would be much difference in stopping collusive behaviour between delaying release of reserve and energy bids and offers 24 hours or 2 weeks. If the suppliers thought they could ratchet prices up then they would adapt to whatever timeframe the data was released. However, if they did conspire, then they also take the risk that analysis of actual behaviour by regulators or others might uncover collusive actions. That ex post analysis to search for long term collusive behaviour is not dependent on whether the data is released 24 hours or 2 weeks later.</p> <p>In contrast short-term opportunistic behaviour can be highly damaging to the market and consumers. Without improved transparency those with short-term market power can use their market power for several days. Release of reserve and energy bids and offers the day afterwards would quickly allow affected parties to identify which party or parties were acting opportunistically and allow some countervailing power at those times that the market is stressed. The benefit of releasing this data earlier is that there will be greater transparency around short-term opportunistic pricing behaviour and this outweighs the risk of suppliers using the earlier released data to act collusively.</p>	Change to require reserve offers and energy bids and offers to be released the following day