



MAJOR ELECTRICITY USERS' GROUP

13 May 2011

Anneke Hoek
Electricity Authority
By email to submissions@ea.govt.nz

Dear Anneke

Consultation paper – Draft decision regarding alleged UTS on 26 March 2011

This is a submission by the Major Electricity Users' Group on the Electricity Authority consultation paper "Draft decision of the Electricity Authority under Part 5 of the Electricity Industry Participation Code regarding an alleged UTS on 26 March 2011" published 6th May 2011¹.

Several MEUG members are submitting separately. MEUG members have been consulted in the preparation of this submission. This submission is not confidential.

MEUG's focus has been and continues to be on Code amendments and non-Code market facilitation measures within the scope of the Authority and other policy changes to improve competition and operation of the market and thereby reduce the risk of the events of 26th March being repeated. An important policy change outside the decision making of the Authority is partial listing of SOE electricity suppliers. The analysis and decisions of the Authority though will be useful in informing the debate on that policy and the test specified by the Ministers of Finance and SOE to Treasury on partial privatisation options that² "*the Government would have to be satisfied that industry-specific regulations adequately protected New Zealand consumers*".

Last but not least MEUG congratulates the Authority on using its new powers to investigate market performance, seek information from market participants and use of new tools such as vSPD to analyse these events. The draft decision has been a useful test of these new functions.

Yours sincerely

Ralph Matthes
Executive Director

¹ Refer <http://www.ea.govt.nz/our-work/consultations/uts/26Mar11>

² Refer <http://www.beehive.govt.nz/release/ministers-seek-mixed-ownership-model-advice>

Question	General comments in regards to the question:	Response
<p>Q1. Has the Authority accurately recorded and interpreted all of the salient facts in regard to this matter? If not, please detail the inaccuracies</p>	<p>One assumption needs to be changed in calculating generator SRMC.</p>	<p>In the spreadsheet Marginal-cost-calculator.xls the carbon price cap has been assumed as \$25/t CO₂. Until Government changes policy, then the effective capped C price should be assumed, ie greenhouse gas emitters³ “have to surrender only one NZU for every two tonnes of emissions or pay the Government a fixed price of \$25. This means the NZU price will effectively be \$12.50 per tonne of emissions.”</p>
<p>Q2. Do you agree with the Authority’s draft decision that the situation existing on 26 March 2011 constitutes a UTS? Please give reasons for your answer.</p>	<p>No comment.</p>	<p>No response.</p>
<p>Q3. Do you agree with the draft remedial actions that the Authority intends to take to correct the UTS? Please give reasons for your answer.</p>	<p>It is unclear how the proposed direction by the Authority to specify prices of between \$1,500/MWh and \$3,000/MWh for trading periods 22 to 25 on 26th March 2011 is consistent with:</p> <ul style="list-style-type: none"> • The draft scarcity pricing proposals. The various proposed mandated pricing floors were universally opposed by consumers and some new entrant retailers in submissions that closed 29th April 2011. We suggest the Authority when considering submissions on scarcity pricing and submissions on the draft UTS decision ensure final decisions for the two issues are consistent. • The decision announced on Tuesday to retain Whirinaki offers at \$5,000/MWh during Normal security settings and use Whirinaki SRMC during 	<p>No response.</p>

³ Refer <http://www.climatechange.govt.nz/emissions-trading-scheme/obligations/>

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	<p>other security settings. Whirinaki SRMC at present is approximately \$400/MWh. The Authority decision notes a preference for Whirinaki to be offered at SRMC however concern by the System Operator that slow start thermal plant may exit the market in the next few months if the offer is changed persuaded the Authority otherwise;</p> <ul style="list-style-type: none"> • Consideration of the effect on parties that made arrangements to manage their expectation that spot prices may have exceeded between \$1,500/MWh and \$3,000/MWh; and • Consideration of the effect on consumers that may have shed load based on prices posted on WDS or SPD ahead of and during those trading periods. 	
<p>Q4. Are there any other remedial actions that the Authority should take to correct the UTS? If so, please detail the other actions and give reasons for your answer</p>	<p>Yes in relation to the Market Performance Investigation pursuant to s. 16(1) (g) of the Electricity Industry Act 2010 being undertaken in parallel to the UTS inquiry.</p>	<p>The investigation needs to consider:</p> <ol style="list-style-type: none"> 1. Given MRP was aware of the risk on 25th March but chose not to take a hedge⁴, should MRP have informed its TOU consumers on spot of that risk and allowed those consumers to make their own decisions on whether to purchase a hedge or plan demand reductions? There may have been a lack of duty of care by MRP in providing that spot purchasing service. 2. What improvements can be made to demand and price forecasting? This is for both SPD (4 hours ahead) and longer term forecasts (weekly WDS).

⁴ Appendix A of the Draft Decision notes various actions by MRP indicating they were aware of the risk, eg on Friday 25th March at 15:12 MRP offered an additional 125 MW at Southdown and between 15:50, 16:00 and shortly after 16:45 phone discussions were held on hedges ending with MRP deciding not to hedge. On 26th March MRP appear to have been acutely aware of the event with various re-offering of output to mitigate spot price effects.

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		<p>In designing the Demand Side Bidding and Forecasting project some accountability could be placed on the System Operator to have more accurate demand forecasts when the forecast prices become important in ensuring a well informed and efficient response by demand and supply.</p> <p>3. The change by the System Operator to Whakamaru-Otahuhu constraint limits was a contributing factor⁵. An assessment of how frequently and the range of revisions by the System Operator to constraint limits during routine planned outages may assist parties understand how material that risk has been in the past and therefore possible risk in the future.</p> <p>4. Was there a difference in risk management strategies between SOE and listed suppliers? MEUG notes that this event involved the three SOE but neither of the two large listed suppliers. For example Infratil, majority owner of Trustpower, reported⁶ <i>“TrustPower closely manages its exposure to volatile electricity prices and has not lodged a complaint.”</i></p> <p>5. Why was there no extreme price event the weekend following 26th March even though conditions were similar? A review of the behaviour of parties to assess and actions taken to mitigate the potential risk for the two consecutive weekends might be insightful.</p>

⁵ Ibid, Changes to Whakamaru-Otahuhu constraint limits for some future trading periods made 10:40 and 11:10 26th March

⁶ Infratil Monthly operational Report, 2nd May 2011, refer http://www.infratil.com/media/Email/infratil_newsletter_april2011.htm