

19 May 2021

Doug Watt
UTS Team
Electricity Authority
By email to UTS@ea.govt.nz

Dear Doug

Cross-submission on proposed actions to correct undesirable trading situation 2019

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the 16-submissions by other parties that closed on 28th April 2021 regarding the Electricity Authority (EA) consultation paper "Proposed actions to correct Undesirable Trading Situation 2019," 11th March 2021.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may make separate submissions.

The UTS was caused by the unbridled exercise of market power

3. The EA has described the UTS event in terms of a confluence of factors,²
"In short, the Authority found that a confluence of factors reduced normal competitive pressure in the wholesale market during the period in question. This confluence of factors resulted in unnecessary spill and prices remaining abnormally high when compared against supply and demand conditions. The situation was of significant scale and duration."
4. There is no mention of the exercise of market power in the EA consultation paper and it is not a consideration listed in the "confluence of factors." MEUG believes the phraseology of a "confluence of factors" sugar coats what was unbridled exercise of market power.
5. The failure of the EA to recognise the exercise of unbridled market power as the most important factor leading to the UTS outcomes of high prices when water was being spilled has, in our view, led to a proposed set of corrections that will have little effect on the parties that caused the UTS. The following two sections propose two changes to the proposed set of correction that better reflect the severity of the UTS on the market, will sheet home the costs to the parties that caused the UTS, and hence strongly incentivise them not to exercise unbridled market power in the future.

¹ Zipped document URL <https://www.ea.govt.nz/zipcontroller/download/ebfebc379bd1d921c89117cd10e90a4b> at <https://www.ea.govt.nz/code-and-compliance/uts/undesirable-trading-situations-decisions/10-november-2019/?ct=t%28Market+Brief+-+4+May+2021%29>.

² EA consultation paper, Executive Summary, pii.

A \$12/MWh instead of a \$13.70/MWh cap should be used

6. The EA has proposed a \$13.70/MWh cap. The EA admit that cap is conservative, that is it favours Meridian and Contact. Submitters noted the correction was conservative as it did not consider the effect on long-term security of supply settings and emissions. For example, Nova submitted,

“Nova also points out that the prices that apply during periods of hydro spill have an important influence on the long-term settings for hydro security of supply. This should be taken into consideration when determining the level of the cap on hydro offer prices.”

7. Accordingly, MEUG supports a lower cap than the “conservative” cap of \$13.70/MWh. The consultation paper noted³:

“offer prices could be calibrated to the final prices seen in the Lower South Island in the latter half of the UTS period, 18-27 December 2019, which averaged approximately \$12/MWh.”

8. MEUG recommends the EA use this cap of \$12/MWh as it is based on observed market offers and therefore, unlike some other lower estimates of offers, must have been compliant with resource consents.

Only Meridian and Contact should bear costs of resetting prices

9. MEUG agrees with the following submitters concerns of revising energy and reserve prices without considering the effect on participants other than Meridian Energy and Contact Energy that acted rationally at the time:

- a) Enel X, a service provider offering IL into the IR market, submitted,

“The proposed corrections to IR prices and settlement will penalise IR providers that were acting rationally in the IR market for the actions of several participants in the energy market. Penalties to correct an undesirable trading situation should be constrained to those who caused it.”

MEUG agrees with Enel X.

- b) Nova submitted,

“Nova is surprised, however, with the lack of discussion on the impact on the peaking plants if spot prices are reset using capped offer prices. This point was highlighted by Nova in its submission on the Preliminary Decision Paper. This is acknowledged in Table 9 in the consultation paper. Mercury also identified this as an issue “...in this case such a remedy would involve the imposition of below short run marginal cost revenues on Nova ex-post, which would not be an outcome expected under normal market conditions.”

This point is raised again in this submission, together with a proposal that, as well as providing constrained on compensation to generators outside those to be capped, the offer prices for the McKee Power Plant should be adjusted to reflect the prices it received for the generation it produced during the period of

³ Ibid, paragraph 5.41 (d).

the UTS consistent with the Authority's view (which Nova agrees with) that "it is important to compensate high price generators for supporting system security and wants to ensure that the actions to correct the UTS do not create perverse incentives to withdraw from providing those services" (paragraph 5.47 of the consultation paper)."

MEUG agrees with Nova.

10. For both the above issues the principle at stake, as stated by Enel X, is "Penalties to correct an undesirable trading situation should be constrained to those who caused it." In a joint submission, Haast Energy, Ecotricity, Electric Kiwi, Flick Electric, Oji Fibre Solutions and Vocus stated the same⁴:

"The remedy should not reward market participants who contributed to and/or caused the UTS and should not penalise consumers: A key principle we consider should be applied when determining the remedy for a UTS is that no party, whose actions contributed to a UTS and/or was responsible for a UTS, should be compensated, financially gain or profit, from the UTS."

11. MEUG acknowledges the EA's proposal will lead to outcomes for end consumers in the spot market that better reflect outcomes had a UTS not occurred, and that will be improved if an offer cap of \$12/MWh rather than \$13.70/MWh is used as discussed in the preceding section.
12. However, the EA's proposal has perverse outcomes for some suppliers in the spot, that is energy and reserves markets, as illustrated in paragraph 9 above. A solution the EA should consider is:
 - a) To retain the proposed resetting of prices using vSPD and a \$12/MWh offer cap that will lead to revised lower spot prices for buyers; and
 - b) To keep all suppliers to the energy and reserves market, other than Meridian and Contact at the EA's nominated 7-power stations in the South Island, indifferent between the revised vSPD outcomes and actual outcomes with the cost of that borne by the parties that caused the UTS, that is Meridian and Contact.

Yours sincerely



Ralph Matthes
Executive Director

⁴ Haast-Oji + Independent's submission, p1