

UTS preliminary decision places the wholesale market in focus

MEUG has had concerns about the wholesale market for some time and, amongst some major users, confidence in the market has been low – particularly over the last two years. While we were not party to the Undesirable Trading Situation (UTS) claim, we were supportive of the claim being bought.

In its preliminary decision, the Electricity Authority (EA) has found that Meridian Energy unnecessarily spilled water from its South Island dams which could have been used for generation. The EA estimates that this resulted in other electricity retailers having to pay \$80 million more on the wholesale market than they should have, with more expensive North Island generation having to be dispatched.

This UTS decision process is different from most prior UTS decisions. Usually the EA finalises a decision without consultation. The consultation process is a welcome step. It provides an opportunity for adversely affected retailers and consumers to submit on the harm incurred – both in terms of direct financial cost, but also in terms of damaged confidence in the wholesale market and the effects of that in terms of behaviour and long-term investment planning.

For MEUG the UTS decision is an important development for our number one strategic priority topic of “Spot/hedge markets” where we want to see improvements in competition and hence more confidence that pricing is being set in a competitive framework and greater transparency to allow more demand side participation and new entrant suppliers. Integrating possible Code and market changes arising from the UTS decision with the suite of other spot/hedge markets work-streams by the EA and voluntarily by the sector itself (e.g. to the ASX futures and options market) will be important to ensure no unintended consequences, no gaps and no overlaps in the matrix of ongoing improvements to the market.

In parallel the EA compliance team is considering a possible breach of the High Standard of Trading Conduct rules by Meridian Energy. For that, and the UTS preliminary decision, it is important Meridian Energy has the opportunity to put forward its case for what happened. Greater transparency and understanding are essential if major users are to have confidence in the market.

MEUG’s own work into the wholesale market continues. Earlier in the year we commissioned Energy Link to analyse trading behavior and persistently high wholesale prices. That work was very informative for members and is ongoing. We have also commissioned Ireland Wallace and Associates to analyse whether excessive economic profits have been generated in the wholesale market using publicly available audited accounts. While that work is in its early stages, there is sufficient indicative evidence to commission further work.

Key dates

What's on	Who	When	Notes for members
Submission: Waikato & Upper North Island Voltage Management \$145m proposal	Commerce Commission (CC)	9 July	Draft decision is to approve work by Transpower. It is needed. Issues are when to build, cost and who pays? Cross-submissions close 17 July.
Feedback: Default and Individual Price-Quality Path resets	CC	10 July	Will assist improvements for future DPP and IPP resets
Submission: Gas (Information Disclosure & Penalties) Amendment Bill	Select committee	16 July	Important the regime proposed by this Amendment Bill, together with the EA's soon to be consulted work on Wholesale Market Information, the gas sector's improvements to voluntary disclosure and the GIC changes to Contingency Management Regulations result in meaningful improvement to thermal fuel disclosures
Technical Briefing: Undesirable Trading Situation decision	Electricity Authority (EA)	17 July	Useful Q&A opportunity for interested parties to assist prepare submissions that close 11 th August
Submission: Securing access to exchange data	EA	21 July	Welcome proposal to improve EA's market monitoring and facilitation
Meeting: MEUG Annual General Meeting	MEUG	22 July (provisional)	Details to be confirmed and finalised
Submission: Critical Contingency Management Regulations amendments	Gas Industry Company	24 July	See Gas Information Disclosure & Penalties) Amendment Bill event above
Event: EECA's 20 th birthday	EECA	27 July	Members pay \$1.5m pa mandatory levies to the Energy Efficiency & Conservation Authority (EECA).
Workshop: 2020 Security of Supply – outlook to 2030	System Operator	28 July	System Operator weekly, annual, and other occasional reporting and the detailed modelling underpinning that is continuously improving. A good opportunity to learn recent changes and scenario results