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Whirinaki capacity offer

The Authority has completed its consideration of submissions on its review of the current Whirinaki offer and alternative options. As required by the Electricity Industry Act 2010 the current offer and alternatives were evaluated against the Electricity Commission's principal objectives and specific outcomes, taking into account the current environment.

The consultation paper proposed reducing the Whirinaki capacity offer to the plant's short-run marginal cost (SRMC) if it could be confirmed that sufficient capacity will be available to the System Operator to meet demand going forward. If not the offer would be maintained at \$5000/MWh.

The Authority has reached the view that it cannot confirm that sufficient capacity will exist if Whirinaki's capacity offer is reduced to SRMC. The capacity margins in the draft Annual Security Assessment (ASA) reflect the current capacity offer of \$5,000/MWh. The System Operator has advised that, in its opinion, if the capacity offer was reduced to SRMC, slow-start thermal plant would exit the market within 3 to 6 months.

Without scarcity pricing, there is no assurance fast-start peakers would enter the market to replace exiting plant and insufficient unit commitment from slow-start thermal plant may resurface as a problem, as it did in 2009. The \$5,000/MWh offer for Whirinaki was the Commission's response to this problem.

The Authority remains of the view the Whirinaki capacity offer should, at some stage in the future, be reduced to the plant's SRMC if the plant's offer strategy remains under the Authority's direction. With that in mind, the Authority is intending to request that the System Operator advise it on capacity margins available under both the current capacity offer and a SRMC-based capacity offer when it undertakes future ASAs in accordance with the Code. The Authority notes the Government's current timetable for selling Whirinaki may render this consideration unnecessary.

The Authority believes the above offer strategy is consistent with the approach the Authority has taken with respect to pricing for last resort plant when they're in a net pivotal position. The lack of sufficient capacity margin available without the Whirinaki plant puts Whirinaki in a net pivotal position when it is dispatched for capacity reasons, and hence it is appropriate to offer it to the market at its estimated long-run marginal cost to incentivise more efficient arrangements, such as alternative sources of supply, demand response and hedging activity.

Setting the Whirinaki capacity offer to \$5,000/MWh provides clear forewarning to all parties exposed to spot prices that very high prices will occur when Whirinaki is dispatched, and that those prices reflect supply and demand conditions and the long-run economic costs of operating Whirinaki, given its low expected capacity factor.

The summary of submissions and Authority response document are available at:

- <http://www.ea.govt.nz/industry/security-of-supply/reserve-energy-scheme/whirinaki-offer-strategy/>

Code Amendment Proposal: Consultation on the System Operator 2011/12 Draft Policy Statement

A consultation paper on the System Operator 2011/12 Draft Policy Statement has been published at:

- <http://www.ea.govt.nz/our-work/consultations/pso-cq/2011-12-system-operator-draft-policy-statement/>

The consultation paper incorporates the Code amendment regulatory statement and the complete analysis of the proposed amendment is set out in that regulatory statement.

Submissions on the consultation paper should be made to submissions@ea.govt.nz by 5 pm on Tuesday, 7 June 2011.

Draft Code Amendment: Addition of Fitch Ratings

In February 2011 the Authority commenced a review of wholesale market settlement and prudential obligations. This review consists of two phases of work, comprising quick wins and a first principles review.

As part of the quick wins, the Authority has drafted proposed amendments to the Electricity Industry Participation Code 2010 (Code) so that a long term credit rating of A- from Fitch Ratings will qualify as an acceptable credit rating for the purpose of wholesale market prudential arrangements.

The proposed Code amendment is available at:

- <http://www.ea.govt.nz/act-code-regs/code-regs/code-changes/proposed-amendments/>

Disclosure of information to Authority – quantity of electricity sold by connected retailers

The Authority reminds directors of distributors that, under section 88 of the Electricity Industry Act 2010 (Act), they must ensure that the distributor discloses the quantity of electricity sold each financial year by connected retailers to customers who are connected to its local network.

The disclosure must be made in a statement to the Authority within two months after the end of the financial year and must be publicised by the Authority and the distributor. Under section 73 of the Act, 'financial year' means a period of 12 months ending 31 March.

The disclosure must be made using the statement form available at:

- <http://www.ea.govt.nz/act-code-regs/part-3-of-the-act/>

Locational Price Risk consultation

The Authority has published a second set of responses to a request for more information on the cost-benefit analysis developed for the locational price risk project.

The responses are available at:

- <http://www.ea.govt.nz/our-work/consultations/priority-projects/lpr-proposed-amendments/>
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Request for Information

The Authority has requested information from a number of parties regarding the impact of retailers' or distributors' liability under the Consumer Guarantees Act 1993.

Copies of letters requesting that information are available at:

- <http://www.ea.govt.nz/our-work/programmes/market/consumer-rights-policy/model-arrangements/distribution-tariff/>

Responses to the request for information should be provided to the Authority by 20 May 2011.

Levy: FAQs for consumers

In response to inquiries, the Authority has published some frequently asked questions to enable consumers to better understand the electricity levy component of their power bills.

The FAQs are available at:

- <http://www.ea.govt.nz/footer-elements/faqs/levy/>

Compliance Update

The latest Compliance Update is available at:

- <http://www.ea.govt.nz/act-code-regs/compliance/update/>

Current consultations

- **Managing locational price risk: Proposed amendments to Code**
The Authority is progressing a number of priority projects to improve the performance of the electricity market. One of those is the proposed introduction of financial transmission rights (FTRs).
A paper on FTRs is available at:
<http://www.ea.govt.nz/our-work/consultations/priority-projects/lpr-proposed-amendments/>
Starting: 12/04/2011, Ending: 12/05/2011 5:00pm
- **Draft decision regarding the events of 26 March 2011**
The Authority has reached a preliminary finding that the situation existing on 26 March 2011 constitutes a UTS.
The draft decision consultation papers are available at:
<http://www.ea.govt.nz/our-work/consultations/uts/26Mar11/>
Starting: 06/05/2011, Ending: 13/05/2011 3:00pm
- **Minor amendments to voluntary principles and minimum terms for domestic retail contracts.**
In May 2010, following consultation with stakeholders, the Electricity Commission (Commission) finalised and published a set of voluntary good practice contracting principles (principles) and minimum terms and conditions (minimum terms). A paper covering minor amendments to these principles and minimum terms is available at:
<http://www.ea.govt.nz/our-work/consultations/retail/proposed-amendments-minimum-terms/>
Starting: 21/04/2011, Ending: 19/05/2011 5:00pm

- 2011/12 System Operator Draft Policy Statement

The Authority has published a regulatory statement for the purpose of consultation on proposed code amendments included in the draft Policy Statement.

The consultation paper is available at:

<http://www.ea.govt.nz/our-work/consultations/psocq/2011-12-system-operator-draft-policy-statement/>

Starting: 09/05/2011, Ending: 07/06/2011 4:00pm

Subscription

To subscribe or unsubscribe please email:

info@ea.govt.nz