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## UTS final decision and proposed actions

The Authority has confirmed its draft decision of 6 May 2011 that the events leading to electricity spot market prices of around \$20,000/MWh (megawatt-hour) on 26 March 2011 were an Undesirable Trading Situation (UTS).

As a result of its final decision, the Authority is proposing to reset offer prices at the Huntly power station to a maximum of \$3,000/MWh on Saturday 26 March. This compares to Huntly offer prices around \$19,000/MWh that would stand if the Authority had not declared a UTS.

A summary of the UTS decision and related matters is available at:

- <http://www.ea.govt.nz/our-work/consultations/uts/15Jun11/>

The UTS decision document is available at:

- <http://www.ea.govt.nz/our-work/consultations/uts/15Jun11/>

Questions and Answers related to the UTS decision are available at:

- <http://www.ea.govt.nz/our-work/consultations/uts/15Jun11/>

## Submissions on proposed actions to correct the UTS

Under the Electricity Industry Participation Code, the Authority is required to consult on any remedial actions it intends to take to correct a UTS. Accordingly, participants and interested parties are invited to make submissions on the proposed remedial actions. Pending conclusion of consultation, the Authority will not comment further on proposed remedies.

The consultation paper is available at:

- <http://www.ea.govt.nz/our-work/consultations/uts/15Jun11/>

Submissions should be emailed to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz) and must be received by 5pm on Tuesday, 21 June 2011.

Subject to the content of submissions, the Authority expects to make a final decision on remedial actions at the end of June.

## Implications for the spot and hedge markets

The Authority emphasises that resetting offer prices for 26 March does not impose a price cap on generator offers in the spot market. If the exceptionally high prices had resulted from a genuine scarcity of electricity supply, and the high



offer prices had been well signalled in advance, it is unlikely the Authority would have declared a UTS and reset Huntly's offer prices.

The Authority also considers that resetting offer prices does not undermine incentives for parties to manage their spot market risks, such as by buying financial hedges from generators. The proposed \$3,000/MWh offer prices are intended to reflect a "willing seller, willing buyer" outcome and should be consistent with the risk-management incentives parties would face in a workably competitive market.

It is well known that hedge markets thrive when participants are confident the underlying physical market is competitive, and they are hampered when this is not the case. In the Authority's opinion, allowing the exceptionally high prices of 26 March to stand would have undermined the hedge market, as those prices did not reflect a workably competitive market.

## **Market performance report**

The Authority has not proceeded with preparing a market performance report on the events of 26 March, as the UTS decision document already contains detailed analysis of the event and the Authority's work programme already contains initiatives relevant to reducing the chances of these events happening again.

## **Subscription**

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[info@ea.govt.nz](mailto:info@ea.govt.nz)