



meridian

21 June 2011

Carl Hansen
Chief Executive
Electricity Authority
2 Hunter Street
Wellington

By Email: submissions@ea.govt.nz

Dear Carl

Proposed Actions regarding 26 March 2011 UTS

1. Meridian welcomes the Authority's final decision that the events of 26 March constituted a UTS, and the opportunity to submit on the draft decision in relation to the appropriate correctional actions.
2. This submission:
 - a. comments on the Authority's proposed correctional action;
 - b. sets out Meridian's view of the appropriate approach in this case; and
 - c. comments more generally on the need for Code reform moving forward.

Proposed correctional action

3. In Meridian's view, the Authority's proposed correctional action - determining final prices by reducing Huntly offers to an estimate of a demand-side response price - is difficult to support.
4. The Authority appears to take a "counterfactual"-based approach - i.e. re-running the events of 26 March but assuming that the factors that gave rise to the UTS were not in place. In Meridian's view, such an approach is fraught with difficulty and is not required by the Code. As the Authority has identified, the events of 26 March resulted from a confluence of events, and it is by no means clear which of those events should be assumed to be different in the counterfactual. For example, it is not clear why, if the counterfactual assumes that there was sufficient notice for a demand-side response, it should not also assume that there would have been a supply-side response (e.g. at Stratford). In Meridian's view, the uncertainty in deciding the relevant elements of the counterfactual argues against such an approach

Meridian's proposed approach

5. In Meridian's view, an appropriate response in this case is to recognise that, where a UTS has been declared by reason of a generator taking advantage of a net pivotal position in circumstances where there is no energy or capacity shortage, prices should "normalised" by being returned to workably competitive levels. Such a response is appropriate for the following reasons:
 - a. The remedy for a UTS should reflect the fact that the situation has been found to be "undesirable" and should set appropriate incentives going forward. Where a generator has taken advantage of a net pivotal position in circumstances where there is no energy or capacity shortage, the outcome should not be that its offers are reduced to a level many times higher than "normal". On that approach, there would be a real incentive for a party to contribute to a UTS. Indeed, as Meridian has previously submitted, generators could well begin to actively seek net pivotal status.
 - b. Similarly, the remedy should not punish end users by setting a higher price for electricity than, with notice, they would have been prepared to pay¹.
6. Meridian does not, however, suggest that the price normalisation process need involve a complex counterfactual assessment assessing alternative supply and demand responses. Rather, in Meridian's view a pragmatic approach is required, recognising the many variables involved and the need for there to be a disincentive to contribute to a UTS.
7. As previously submitted, Meridian therefore suggests that price normalisation should be achieved in this case by adjusting Genesis's Huntly offers to what they were at the same time in the previous week.

Need for Code reform

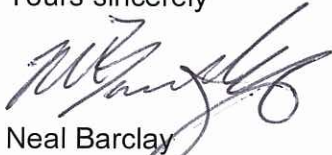
8. Finally, Meridian reiterates the need for a Code reform process to address whether transient market power mitigation measures are necessary or appropriate for the New Zealand market². While the UTS regime is a valuable "gap filler", it cannot take the place of a full consideration of the relevant issues, and is not a suitable mechanism for dealing with situations that may become increasingly frequent in future, particularly as it will remain unclear at the margins what is and what is not a UTS in the case of high offer prices. Meridian remains concerned that arbitrarily high prices in cases of transmission constraints will become the "new normal", and looks forward to working with the Authority to discuss appropriate reform measures.

¹ A case in point is Vodafone, which states that it would have arranged to have its cellular network powered by battery backup during the time of the price spike.

² Meridian recommends this is considered as a matter of urgency by the Wholesale Advisory Group.

9. If you have any questions regarding this cross submission please contact either myself or Gillian Blythe (gillian.blythe@meridianenergy.co.nz, mobile 021 388 469).

Yours sincerely



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