

7th September 2020

Submissions
Electricity Authority
By email to: uts@ea.govt.nz

CONSULTATION ON UTS PRELIMINARY DECISION WINSTONE PULP INTERNATIONAL LIMITED'S CROSS SUBMISSION

This is Winstone Pulp International Limited's (WPI) cross submission on the Authority's preliminary decision that an Undesirable Trading Situation (UTS) existed between the 3rd and the 18th December 2019, as set out in the Authority's consultation paper, dated 30th June 2020.

We agree with the Authority's preliminary determination and support the Major Electricity Users Group's (MEUG) separate submission and cross-submission on this consultation paper.

Noting the initial submissions received by the Authority, we remain of the view that Meridian could have easily structured their generation bids to ensure the HVDC transmission capacity northwards was fully utilised during the spill event. Instead they chose to structure their generation bids to ensure the HVDC transmission capacity northwards was not fully utilised during the spill event. Intermittent and random events of market power do occur in markets. However, this event is a repeat of previous events where Meridian had market power to dictate constraints on HVDC flows and, despite a soft-handed approach by the Authority to cease exercising that market power through offers, continued to do so.

In addition, we have the following comments on the impact of the UTS on WPI.

Because of the UTS behaviour identified by the Authority, WPI incurred additional electricity costs estimated to be approximately \$150,000 higher than they would have been if the UTS behaviour had not occurred. This estimate is based on WPI's unhedged wholesale electricity consumption between the 3rd and the 18th December 2019, actual spot prices, and the Authority's counterfactual estimates of spot prices that would have applied if the HVDC has been used to its full available energy transfer capacity.

While this UTS situation covers a limited period, the Authority's analysis indicates that South Island Generators have exercised their market power on previous occasions to limit interisland price separation for their own commercial advantage. This suggests that the cost of this type of behaviour to our business is likely to be much higher, due to both our spot market exposure and the cost of our hedges, and these extra costs have accrued over a sustained period.

Over the last few years, our confidence in the transparency and competitiveness of the wholesale spot and hedge electricity markets has been eroding. We have observed prices that are difficult to understand, given the underlying market conditions at the time. This UTS situation further undermines our confidence in the market.

It is our view that the Authority needs to address both the immediate issues relating to this UTS, but also the fundamental underlying problem that it has highlighted.

Yours sincerely

S9(2)(a)

Glenn Whiting

Chief Financial Officer