



27 November 2020

Electricity Authority
Wellington
New Zealand

By email: uts@ea.co.nz

UTS Preliminary Decision – Supplementary Consultation

1. Contact Energy welcomes the opportunity to submit on the Electricity Authority's (**Authority**) consultation paper, *Preliminary decision on claim of an undesirable trading situation: Supplementary consultation*. We agree with the importance of getting the decision right, and undertaking further consultation.
2. The Undesirable Trading Situation (**UTS**) claim covered a period when significant flooding occurred in the lower South Island. Contact manages New Zealand's largest run of river system, a highly volatile catchment with limited ability to store water. Safety of our dams, people, plant and local communities is Contact's paramount concern. During such times, Contact must balance safe and sensible generation in real-time with the safety of our plant, people, downstream communities we operate in, our consents, and managing the health of the river.
3. Contact supports the Authority's detailed analysis in its original draft decision which identified that Contact was unable to maximise generation, spilling water was necessary to manage flood conditions, and that Contact's Quantity Weighted Offer Prices (QWOP) reduced over time, consistent with the Authority's expectations. We were also pleased the Authority has recognised the paramountcy of safety of people and communities in its decision. At all times, but particularly in flood circumstances, this extends to limiting stress on key safety equipment in plant, such as automated spill gates.

"Confluence of factors" test

4. The supplementary consultation introduces a developed process and approach to assessing whether an event is a UTS. The Authority notes that submissions on the preliminary decision had not been made on whether the confluence of factors, resulting in reduced competition and resulted in outcomes not reasonably expected in the spot market.¹ We expect this is because the preliminary decision did not discuss or make clear the first three proposed criteria set out in Figure 1 of this consultation, or assess against those criteria during the relevant period.
 - *Was there a confluence of circumstances and/or behaviours that made the situation unusual?*

¹ Electricity Authority, *Preliminary decision on claim of an undesirable trading situation: Supplementary consultation*, 6 November 2020, Executive Summary.

- *Did this unusual confluence of factors result in reduced competition?*
 - *If competition was reduced, did it lead to unusual market outcomes?*
5. Rather the preliminary decision focussed on other factors such as various spot market indicators not matching the Authority's expectations given underlying supply and demand conditions, which are more aligned to the final two steps of the process set out in Figure 1.²
 6. Contact supports making clearer the steps that the Authority takes in assessing a UTS, and Figure 1 is useful in that regard. We have brief comments on the first three proposed steps in the process that the Authority should consider and clarify in any final UTS decision

Was there a confluence of circumstances and/or behaviours that made the situation unusual?

7. Paragraph 3.8 sets out preliminary view on factors the Authority observed that collectively created a confluence of circumstances that made the situation unusual. This includes large inflow events, management of spill gates, scheduled outages of HVDC and Pohokura, Genesis' view that it is a price taker in the South Island and Meridian managing generation to avoid the HVDC binding. We agree that collectively these events were unusual.
8. Contact has previously submitted on many of these specific individual issues that the Authority has identified. We agree that collectively this confluence of circumstances were unusual.
9. It would be useful for the Authority to provide as much clarity as possible on what threshold might apply as a confluence / unusual situation. The wholesale generation market is, by its nature, dynamic. For any trading period at any node across the country, there are likely to be outages (whether planned or unplanned), transmission constraints, operational, safety and regulatory requirements, and different competitor generation and demand profiles, that will make it unique. Understanding materiality will increase market certainty.

Did this unusual confluence of factors result in reduced competition?

10. The Authority preliminarily concludes that reduced competition occurred in the relevant period. However, the Authority has not defined the relevant market or what reduced competition is judged against. The consultation does note that "...a transition period of reduced competition, may, of itself, be unlikely to constitute a UTS."³
11. Given the competitive dynamics of the market discussed above, and where differing levels of competition occur at each node for each trading period, it would be useful for the Authority to provide greater clarity in its decision on how it defines the market, and what materiality threshold applies for reduced competition.
12. Contact looks forward to the Authority finalising its decision whether a UTS occurred. The process has created significant uncertainty for all parties, and has risked reputational damage – irrespective of the Authority's final decision. As previously submitted, Contact

² Electricity Authority, *The Authority's preliminary decision on claim of an undesirable trading situation*, 30 June 2020, section 11.

³ Paragraph 3.5 of supplementary consultation

remains comfortable that it acted prudently while managing plant, people and community safety at all times.

Haast submission on alleged UTS period

13. The supplementary consultation notes that:

... Haast submitted that November should be included in the UTS period, and that the spill gate reason given by Contact – and hence their avoidance of being marginal – may have been circumvented by using the must run dispatch auction or specified low ramp rates.⁴

14. Contact disagrees with Haast’s assertion. The use of a Must Run Dispatch Auction (**MRDA**) would not reduce the frequency of adjustments at spill gates, as suggested by Haast.

15. MRDA rights do not prevent generation being backed off when it is causing a security constraint. Regardless of MRDA rights when the Lower South Island security constraint binds, the System Operator must back off generation in the region to bring that part of the grid back to a secure state, effectively putting generation in the region on the margin.

16. Lowering ramp rates, as suggested by Haast, to a level that minimises marginal running also hinders the System Operator’s ability to manage security violations on the grid and results in running hydro generators within rough running ranges for extended periods of time. Such rough running causes excessive vibrations and creates risk such as collapsing vortices (Clyde generating units cannot operate between 0 and 70MW and Roxburgh units between 0 and 20MW), for example.

17. The 2009 [Savano-Shushenskava hydro accident](#) in Russia⁵ is a salient example of the risks of operating generators with excessive vibration. It contributed to the significant loss of life, destruction of all but one turbine, environmental damage and significant outages.

We welcome the opportunity of discussing any of these points further with you.

Yours sincerely,



Jacqui Nelson
Chief Generation Officer

⁴ Ibid, footnote 4

⁵ See: https://en.wikipedia.org/wiki/2009_Savano-Shushenskaya_power_station_accident