



19 May 2021

UTS Submissions
Electricity Authority
Wellington

By email: uts@ea.govt.nz

Cross-submission on UTS Proposed Actions to Correct

1. Thank you for the opportunity to cross-submit on the Electricity Authority's UTS Proposed Actions to Correct.
2. Having reviewed the submissions made, our view remains that the Authority's proposed action to correct the UTS by resetting spot market prices using vSPD is a pragmatic approach. While any action to correct would ideally be aligned between the spot and hedge markets, we recognise that the Authority's jurisdiction and the time elapsed since the alleged UTS occurred makes such an approach impracticable.
3. Contact has following specific comments on submissions made:
 - **Inconsistent treatment between spot and hedge markets** - Contact agrees in principle with the concerns raised that resetting of spot prices only without the corresponding adjustment of the hedging market creates risks of inconsistency, risks price divergence, increases levels of uncertainty, and potentially reduces liquidity of hedging contracts, as raised in submissions by the ASX, Meridian, Genesis, Pioneer Energy, Pulse and Trustpower.

Several parties, including Genesis and Meridian recommend that derivative contracts should be resettled against reset spot prices to avoid unjustified wealth transfers.

The Authority's paper identifies the practical and jurisdictional challenges of adjusting the hedge market. This includes the challenge of resetting the market such a long time since the UTS occurred. For that reason, and while recognising the potential impacts, we remain of the view that resetting spot prices at specific nodes is a practical and pragmatic approach to correct and conclude the UTS.

- **Interventions can undermine confidence** – Contact agrees with Enel-X that interventions can undermine confidence in the market. Enel-X recommend that the Authority focus on opportunities to mitigate the potential of such behaviours. This view is similarly echoed by Meridian. The time elapsed between the UTS complaint and the Authority's decision has created market uncertainty, and resulted in speculative and incorrect commentary during the Authority's deliberations. Mercury recommends strengthening of market



monitoring function, and development of clear process timeline. We support the rapid completion of the actions to correct for this UTS, and the Authority continuing to monitor and address any issues in a timely manner.

- **Price Reset** – We do not agree with Haast’s view that *the UTS remedy should reflect that hydro offers needed to reflect the value of water was zero to have surety they would not unnecessary spill water*. Haast fails to recognise that Contact did not spill excess water, offered all capacity into the market, and for safety reasons minimised marginal operation of hydro generators.

We agree with Meridian that adjusting offers and using vSPD to recalculate final prices is the best option that produces outcomes most clearly aligned with normal operation of the market. However, the Commission’s analysis necessarily is unable to embed the real-life competitive responses in its modelling. As a result, there will always be a level of error inherent in ex post analysis.

In the final decision paper, the Authority used vSPD to estimate the level of excess spill while respecting resource consents, operational and hydrological constraints. vSPD was used to estimate the ‘average’ offer of \$13.70/MWh that would be required to generate an additional 28 GWh. We agree with Meridian’s conclusion that this is not a conservative volume as suggested by the Authority, because it does not factor in competitive response and assumes perfect hindsight.

In the Actions to Correct paper, the Authority amended its approach by using a cap on offers of \$13.70 that resulted in an additional 36.1 GWh of hydro generation, which is 30% above what was previously been deemed feasible.

The Authority can not ignore resource consents or physical constrains when resetting prices because this does not align with normal market operation. We agree with Meridian’s analysis that the Authority should use either an average offer price of \$13.70 or a cap price of \$19.98/MWh, both of which result in the original spill volume of 28 GWh. Neil Walbran Consulting similarly supports a reset price that takes into account dynamic efficiency impacts.

- **Penalties for excess spill** – Fonterra ask for penalties applied for excess spill leading to greater emissions. As Contact has detailed at length, Contact did not spill excess water as alleged. Contact was balancing 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. Fonterra’s proposal is outside the scope of the UTS, and other mechanisms exist within the Code to resolve.
- **Contact did not spill excess water** – Haast suggest that they have not heard a coherent explanation from Contact or Meridian about their UTS period conduct. Its submission goes on to detail its concerns about Meridian conduct, with no mention of Contact.

We have provided multiple, coherent submissions that set out the necessary and prudent steps that Contact took to manage dam safety. We are concerned that Haast may be asking the Authority to disregard safe and prudent operation, potentially risking the



health and safety of Contact's dams, staff and community. Safety will always have primacy at Contact.

Haast concludes that the Authority should alter December 2019 offer prices based on what "it reasonably expects the generators should have done in real time to ensure as much of its hydro generation was dispatched as reasonably practicable". We agree.

Contact remains of the view that its hydro generation at Clyde and Roxburgh spot prices should not be reset. As explained during the UTS, Contact offer prices reflected the need to minimise marginal operation, safe operation of its spill gates and meeting its consent requirements. Excess spill did not occur, and Contact dispatched as was reasonably practicable, taking into account the safe and prudent operation of our dams during flooding.

4. Contact looks forward to the rapid conclusion of the UTS Actions to Correct.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jacqui Nelson".

Jacqui Nelson
Chief Generation Officer