

13 August 2021



James Stevenson-Wallace
Chief Executive
Electricity Authority
P O Box 10-041
Wellington

Email: james.stevenson-wallace@ea.govt.nz

Dear James

Re UTS and trading conduct breach claim by Electric Kiwi and Haast Energy

Flick is writing to support and join the UTS and trading conduct breach claim lodged by Electric Kiwi and Haast Energy on 12 August 2021 in relation to trading periods 37 to 42 on 9 August 2021.

We agree:

1. there was an Undesirable Trading Situation (UTS)
2. the UTS was individually and jointly caused by Contact and Genesis; and
3. Contact and Genesis both breached the new trading conduct rules (clause 13.5A) in the electricity Industry Participation Code (the Code).

A workably competitive market would have generators incentivised to run when it is profitable for them to do so. It is clear the NZ market is not workably competitive when generators can choose to withhold capacity despite being able to determine the price they offer to run their plant at to cover costs.

The exercise of market power is enabled by the current market design and the impact is very obvious at the extremes – when generators withheld capacity despite having knowledge that there was a shortage of energy as on 9 August; or when energy is wasted via spill as happened in December 2019 which the Authority agreed was a UTS. However, we strongly believe gentailers have the opportunity and are exercising market power all the time.

The only way to eliminate this opportunity is to address market design that incentivises behaviour that evidence is clear leads to higher prices, less sustainable energy and, now, lower security of supply. We would ask you to note separately our regular and consistent communications in the last two years relating to poor market outcomes, market design and competition issues. We would welcome the opportunity to continue discussions about our suggestions for reforming market design.

Vertical integration meant Genesis offered generation based on only their own load - the UTS claim includes numerous quotes of Genesis management that describe this strategy. This is in stark contrast to Genesis [media release](#) in February 2021 which states:

“We are fortunate to be able to reallocate resources across the business to make this possible. The flexibility and commitment of our team reflects our commitment to ensure secure and stable energy supply for New Zealanders. Electricity is a core component of everyday Kiwi life and we recognise the role and responsibility we have in enabling that.”

Genesis will make the third Rankine (250MW Unit 2) available from February 22 to September 30, 2021. It is expected that it will be run in a limited capacity alongside Rankine Units 1 and 4, and Gas Units 5 and 6.

“The ability to bring a third Rankine to the market highlight’s the critical importance of Huntly’s role to provide back-up generation cover to ensure security of supply and help maintain stable prices in the wholesale electricity market,” Clark added.”

We acknowledge the third Rankine has played a critical role during this winter. However, the market could justifiably anticipate this commitment by Genesis to ensure secure and stable energy supply for New Zealanders and help maintain stable prices in the wholesale market would continue for the period to 30 September 2021. That is, the third Rankine was available but a decision was made not to ‘turn it on’.

The scarcity pricing approach is a rules-based mechanism to apply when there is a physical difference between generation volumes and demand. However, this approach is not relevant when it is obvious generators exercised significant market power by choosing to withhold generation capacity that was not on outage and could have been generating.

Not only are consumers impacted by the higher prices on 9 August but there will now be expectations about higher prices in the future as a result of this disorderly market event instead of future prices reflecting true supply and demand.

The outcomes on 9 August have clearly negatively impacted the confidence of New Zealanders in secure electricity supply – from the Prime Minister to industry participants to individuals who suffered blackouts. Confidence is easy to lose and takes longer to regain.

We agree with Electric Kiwi and Haast Energy that the Authority should:

- stop the Pricing Manager from finalising prices for 9 August until this UTS claim is fully investigated;
- prioritise this UTS investigation and move to quickly resolve this situation. Lengthy delays in completing UTS investigations impacts confidence in the market and the Authority;
- reset prices based on a model where TCC and HLY4 are offered in a way consistent with c13.5A and a workably competitive market, and demand estimated at a no curtailment level; and
- ensure settlement of August contracts by both the Clearing Manager and the ASX are based on an estimate of where the Authority expects this process to arrive. Generators should not benefit from ~\$10,000/MWh prices and load

pay these interim prices resulting from avoidable market failure while the Authority investigates this UTS claim.

Yours



Steve O'Connor
Chief Executive



Genesis to make third Rankine available to cover drought and gas shortages

15 February 2021

Challenging market conditions, driven by a dry summer and supply side constraints in the gas market, have prompted Genesis to make a third 250MW Rankine unit available to support the country's electricity needs.

The combination of looming supply shortages in the gas market, due largely to the declining output of the Pohokura gas field, and drought conditions in many parts of New Zealand, have left hydro catchments at historically low levels. Hydro storage is significantly below average for this time of year and approximately 2000GWh below the levels at the same time in 2020, which saw New Zealand's driest winter on record. This has prompted Genesis to make a third Rankine unit available to support the country's electricity market.

Genesis Chief Operations Officer, Nigel Clark said it was prudent to be looking ahead to winter with the prospect of below average rainfall on top of New Zealand's existing seasonal winter storage challenge.

"We feel it is the right thing to do in the circumstances to support the country's needs if these conditions continue through winter," he said.

"We are fortunate to be able to reallocate resources across the business to make this possible. The flexibility and commitment of our team reflects our commitment to ensure secure and stable energy supply for New Zealanders. Electricity is a core component of everyday Kiwi life and we recognise the role and responsibility we have in enabling that."

Genesis will make the third Rankine (250MW Unit 2) available from February 22 to September 30, 2021. It is expected that it will be run in a limited capacity alongside Rankine Units 1 and 4, and Gas Units 5 and 6.

"The ability to bring a third Rankine to the market highlights the critical importance of Huntly's role to provide back-up generation cover to ensure security of supply and help maintain stable prices in the wholesale electricity market," Clark added.

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