

Electricity Authority  
By email: [uts@ea.govt.nz](mailto:uts@ea.govt.nz)

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## Proposed actions to correct Undesirable Trading Situation 2019

Mercury welcomes the opportunity to provide a submission to the Electricity Authority (EA) on the consultation paper "Proposed actions to correct Undesirable Trading Situation 2019". Mercury has previously submitted on the Undesirable Trading Situation (UTS) preliminary decision paper. We supported the need for the EA to further develop its market monitoring capabilities and to expedite changes to both the trading conduct rules and information disclosure settings, particularly for hydro spill data.

### Support the overall approach being taken

Mercury generally supports the approach being taken by the EA to remedy the UTS situation. In making a recommended remedy for the UTS it is important that the remedy itself does not weaken confidence and integrity in the market. This is particularly important as the attempted correction must restore normal operation of the market as soon as possible. We would argue that the normal operation of the market has naturally been restored without the need for the EA to take any action, strengthening the need to get the remedy right.

A UTS is a rare occurrence but can have major consequences on the positions of all participants in the market. Mercury's business strategy can change frequently depending on several factors such as our outlook for prices and hydrology. As a vertically integrated operator this means we may decide to take a net short, net long, or portfolio neutral position depending on our prevailing view of market conditions at the time or in the future. Our confidence in taking these positions can be undermined by poor trading conduct or by poorly targeted regulatory interventions. We support the idea of correcting a UTS, and we broadly support the proposal being made by the EA. We would however recommend one amendment to the proposal.

The ASX has indicated that its preference is to not re-settle contracts impacted by the UTS remedy. While this is an understandable position to take in terms of easing administrative issues for itself, this is not a robust decision in terms of 'correcting' a UTS. With prices settling at incorrect values sellers will have less confidence in providing volume to this sales channel and may be less likely to maintain or increase liquidity in future if their positions are not corrected. Restoring confidence to the entire market, which is the EA's primary goal, must include derivatives and we encourage the EA and the ASX to revisit the decision to not re-settle UTS impacted contracts.

### There is a need for a specific UTS decision process and timeline

Although we acknowledge making a ruling on a UTS is a difficult and complex issue, Mercury is of the view the amount of time taken to decide on and correct the current UTS has been too long and disruptive for market participants. The re-settled amounts for some parties are material and although a suitable interest rate will be applied (which Mercury supports) there is likely to have been a detrimental effect of the UTS process itself.

Mercury notes the potential for similar frustrations to occur with respect to the new trading conduct rules, as we have outlined in our submissions on that process. We recommend the EA takes steps to strengthen its market monitoring function as soon as possible. We also recommend the development of a clear process timeline which the EA will hold itself to for deciding on UTS investigations (and also trading conduct investigations). Traders operating in the market when a UTS or trading conduct decision are pending may not know whether their own or their competitor offers will be overturned pending the outcome of a claim relating to earlier trading periods. While

some of this uncertainty would be unavoidable, establishing and meeting a predetermined timeline would provide a greater level of clarity.

**Agree North Island offers do not need to change**

We do agree with the EA that North Island offers should not be re-set. The EA has correctly indicated that market conditions in the North Island during the UTS period were very different to those prevailing in the South Island and were subject to normal competitive pressures.

If you have any queries on this submission please contact me at [john.bright@mercury.co.nz](mailto:john.bright@mercury.co.nz)

Yours Sincerely,



John Bright  
Regulatory Strategist

