

**WLG**

Level 1, NZX Centre  
11 Cable Street  
Wellington 6011  
PO Box 2959  
New Zealand

P +64 4 472 7599

**AKL**

Level 7, Jarden House  
21 Queen Street  
Auckland 1010  
PO Box 106 555  
New Zealand

P +64 9 368 1375

27 April 2021

Submissions  
Electricity Authority  
PO Box 10041  
Wellington  
Email: [uts@ea.govt.nz](mailto:uts@ea.govt.nz)

---

## **NZX submission on Proposed Actions to Correct Undesirable Trading Situation 2019**

NZX Limited (NZX) is pleased to submit this response to the Electricity Authority (Authority) consultation on 'Proposed Actions to Correct Undesirable Trading Situation 2019', dated 11 March 2021.

NZX thanks the Authority for the opportunity to make this submission. Nothing in this submission is confidential.

This submission is commenting only in regard to specific questions raised by the Authority in its consultation document and are focussed on the operational matters required to correct the undesirable trading situation (UTS).

NZX is not commenting on the Authority's decision that an undesirable trading situation (UTS) occurred between 3 and 27 December 2019, nor on any wider policy matters associated with UTS events, any questions outside of this remit have been excluded.

### **About NZX**

NZX is a licenced exchange that operates the public equity, debt and derivatives markets. Our public capital markets play a critical role in the productivity and prosperity of New Zealand's economy – they provide investment opportunities for savers and are a vital source of capital for New Zealand enterprises to innovate, grow and create jobs.

As a participant in the electricity market, NZX has for over 25 years supplied services to support the efficient buying, selling and transfer of electricity on the wholesale spot market. Our market operator infrastructure provides a range of specialist trading, clearing, billing, pricing, reconciliation, and data platforms to the market. These regulated activities are contracted by the Authority to enable participants to transact in the electricity market.

### **Introductory Comments**

NZX notes the Authority's comments in the consultation document that it cannot resolve all consequences of the UTS, and is instead proposing corrective actions to achieve an approximate solution to that event. NZX supports that position, and recognizes the trade-off that is required between determining ex-post the dynamic behaviour that would have been exhibited by participants in the market over the UTS period, versus the efficiency of using approximate patterns of behaviour to achieve an outcome.

Furthermore, as final prices are being reset, NZX strongly supports using the scheduling, pricing and dispatch (SPD) market model to perform this exercise. The SPD model is an established tool in the electricity market to



set final prices, with its formulation being set out in the Code and it being subject to regular audits. And while noting that SPD is a model that approximates real time conditions on the grid, for any given set of inputs, SPD does produce results that are of high integrity and promote participant confidence in the final price setting process.

NZX's response to the questions contained in the consultation paper are contained in Appendix A of this submission. Please feel free to contact me regarding any detail contained in this submission.

Yours sincerely

A handwritten signature in black ink that reads 'Tim Chadwick'.

**Tim Chadwick**  
Energy Operations Manager



*Q2. Do you agree that the Authority should seek to correct the UTS period by resetting the payments made/received by spot market purchasers and generators? (If not, please explain your reasoning.)*

NZX agrees that resettling of payments made and received by spot market participants, should only be made by using the current market model as outlined in the consultation paper.

*Q4. Do you agree that injection and off-take volumes should remain unchanged in any resettlement?*

NZX agrees that injection and off take volumes should remain unchanged. This ensures consistency with dispatch and demand during the UTS period.

*Q5. Do you agree that the Authority should attempt to correct the UTS by revising final prices in the electricity market, rather than by an 'off-market' wash-up of spot electricity payments to and from the clearing manager?*

NZX agrees that the most efficient and accurate method to correct the UTS, is by revising final prices which will deliver resettlement of the market for the UTS period.

*Q7. If offer prices and volumes are reset, do you agree that North Island offer prices and offer volumes should remain the same as originally submitted? (If not, please identify any alternative actions.)*

If offer prices and volumes are to be reset, then NZX agrees that North Island offer prices and volumes should remain unaltered. If a change is made, this will introduce more complexity to the solution and based on the Authority's reasoning in the consultation paper, and is likely insignificant to the total outcome.

*Q8. Do you agree that resetting offer prices and volumes by imposing a cap is the preferred action to correct the UTS? If not, please identify preferred alternatives.*

NZX considers a price cap is a straightforward and sensible approach to correcting the UTS.

*Q9. If revisions to offer prices are to vary through time or across generating stations, how should the offer prices be determined?*

NZX recognises there is benefit to the accuracy of the pricing outcome by varying offer prices by time and/or generation stations, however determining these values to any degree of accuracy will be problematic and introduce further computational difficulty for the Authority. For that reason, NZX considers a single offer price is therefore a reasonable approach.

*Q10. Do you consider that final prices should be reset directly? If so, how should they be calibrated?*

No, prices should not be reset directly. As these final prices will be used to reset the market settlement and associated financial contracts, NZX contends that confidence in the wholesale market and integrity in the price calculation process is of key importance to participants. For this reason, the market SPD model should be used for this calculation.

*Q11. Do you agree that the aggregate offer volumes of each generating station should equal the aggregate amount offered by that station during the UTS period? Please describe any preferred alternatives.*



NZX considers that this approach is likely to be the most straightforward and sensible to take, however it would take detailed analysis to fully understand the impact of alternate strategies.

However, an approach that does not moderate offers at different price points, will result in more generation supplied into the SPD model that would typically have been available given the demand and grid configuration prevalent at the time. This may give rise to a high spring washer situation. If this arises, Transpower, NZX and the Authority will need to confirm the process or methodology for correcting these before setting the final price.

*Q15. Should offers to the instantaneous reserves market during the UTS period be corrected? If so, how should instantaneous reserve offers be corrected?*

NZX agrees with the Authority that instantaneous reserves should not be adjusted. It is considered that adjustments will add unnecessary complexity with little contribution to the overall outcome.

*Q16. Do you agree with the proposed approach to treatment of derivatives for the purposes of correcting the UTS? Please explain your answer.*

NZX considers that the appropriate approach here is that each of these financial products should be treated within the bounds of the contractual merits of those products. Any direction contrary to these terms will be detrimental to the integrity of the product and wholesale market confidence.

*Q20. How should any resettlement arising from the actions to correct the UTS be implemented?*

Resettlement ought to take place within two calendar years of December 2019. NZX as the clearing manager will then process the resettlement as an additional washup outlined in Subpart 6, Part 14 of the Code. Settlement will be based on the trader who owned the ICP and volumes in December 2019.

*Q21. If there is a resettlement, what window of time after invoicing should be allowed for traders to meet their obligations?*

Again, following the current clearing process, NZX considers that the resettlement should follow standard washup procedures. Under this procedure the clearing manager determines the amounts owing and payable in accordance with clauses 14.19 and 14.20 of the Code and advises participants by business day 9. The amounts owing or payable should then be settled in accordance with clause 14.31. Any non-payment should be defined through the default process in clause 14.41. Participants should be given the opportunity to dispute the amount via clause 14.25.

However, the participants should be made aware of the impact of the action to correct on final prices. In keeping with current procedure, participants should be given the opportunity to review final prices for the December 2019 consumption month, to enable them to form their own view of their settlement obligations.

Also, in line with current procedures, revised final pricing should be republished on the WITS platform.

*Q22. Please provide feedback on the operational implementation of the proposed actions to correct the UTS, including the interest rate that should be used to scale payments.*

NZX has spent time considering the implementation of this action to correct. It is likely to take at least 2 months to perform all of the required actions including development, unit and system testing, audit, documentation, reporting and deployment.