



3 February 2022

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Submissions
Electricity Authority
Level 7, ASB Bank Tower, 2 Hunter Street
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By email: uts.2021@ea.govt.nz

Re: Preliminary decision on August 2021 UTS

1. Thank you for the opportunity to provide feedback on the Electricity Authority's (**Authority**) preliminary decision on whether a undesirable trading situation (**UTS**) under the Electricity Industry Participation Code (**Code**) occurred on 9 August 2021 set out in the Authority's decision paper dated 16 December 2021.

2. The Authority has found in relation to the claims made against Genesis that:

(a) The actions taken by Genesis were reasonably open to Genesis in the circumstances.

(b) Genesis' decision not to offer the third Huntly Coal and Gas Rankine Unit (**HLY4**) did not threaten confidence in, or the integrity of, the wholesale electricity market and so did not amount to a UTS.

Genesis agrees with the decision and welcomes the Authority's confirmation of our position.

3. The Authority also observed that:¹

(a) The Huntly Rankine Units are not suited for a short-term peaking role for a number of reasons, including the time it takes to bring these units to full generating load.

(b) There were no sustained price signals that indicated HLY4 would be required or would be able to cover its costs.

(c) CAN notices issued by Transpower (as System Operator) are relatively common and cannot be interpreted as a signal of actual scarcity to the extent observed on the evening of 9 August.

(d) Infeasible forecast prices that indicated stress occurred at 10:10 am on 9 August which was over an hour too late to commit HLY4.

(e) By the time Transpower issued its WRN notice at 1:02 pm on 9 August 2021 forecasting insufficient generation for the evening peak, it was too late to start HLY4.

(f) Genesis would need forecast prices of \$300 MWh to commit HLY4 and that the decision not to run was finely balanced based on the data.

4. We agree with the observations in paragraphs 3(a), (c) and (e) but wish to provide feedback on those in (b), (d) and (f):

(a) High price evening peaks, or short periods where prices are infeasible, are not in themselves sufficient to support offering a unit. A sustained period of prices above a minimum threshold price for a target running profile is required before our traders will consider offering a Rankine unit into the market.

(b) We note that:

(i) As we advised the Authority, based on the target running profile and other factors such as units already in the market, the trader would have required forecast prices above \$300 MWh to be sustained for the entire day to consider offering HLY4 at the time. This is information that was commercially sensitive to Genesis at the time of the decision of whether to offer the third Rankine into the market information was provided to the Authority on a confidential basis, and was provided to the Authority on a confidential basis. Genesis maintains that the trader's required forecast prices should have been kept confidential. Further, as the Authority is aware, Genesis has several running profiles for the Rankines. Accordingly, \$300 MWh cannot, and should not, be taken as a "floor price" that generally triggers the offering of a Rankine unit into the market.

(ii) At 8:10 am, well after the CAN issued by the System Operator at 6:42 am, prices for the evening peak trading periods had reduced significantly. In trading periods 37 and 38, prices had reduced by more than 50 per cent.

¹ Preliminary decision on whether a undesirable trading situation occurred on 9 August 2021 Decision Paper, at page 23.

- (iii) At the 10:10 am and 12:10 pm long schedule updates (which the market sees approximately 40 minutes later), prices increased significantly reflecting, we believe, the curtailment of generation from the Tokaanu power station.
 - (iv) At 2:10 pm, prices returned to levels that were lower than those at 6:10 am that morning before the CAN was issued.
- (c) It is difficult to reconcile the Authority's conclusion that the decision not to offer HLY4 was "finely balanced" with its conclusion that there were no sustained price signals that indicated HLY4 would be required or would be able to cover its costs. As the Authority acknowledges, neither the CAN nor forecast prices, at the time it was possible to offer HLY4 into the market, merited the offering of HLY4. The factors that ultimately resulted in a drop in generation (from Tokaanu between 18:06 and 18:52, and wind generation between 17:40 and 18:40, as referenced by the Authority in its preliminary decision at paragraphs 7.17 and 7.18, respectively) occurred close to or during the peak, which was much too late for Genesis to offer HLY4.
5. Finally, while the Authority considers that the effect the System Operator had on market outcomes was through scarcity pricing and that the faulty demand allocation notices it issued are not relevant to a UTS, the decision paper is silent on the despatch instructions given by the System Operator to generators. As Genesis experienced, and the Ministry of Business, Innovation and Employment's investigation into the 9 August 2021 events found, the System Operator directed generators to reduce generation during the peak.² Genesis, for example, was directed to curtail generation from Huntly Unit 5 and its two Rankine units, with Unit 5 required to reduce its generation by 103MW (over 25% of its generating capacity) at the height of the 9 August peak. Please can the Authority explain how it has thought about the System Operator's despatch instructions to generators on 9 August, including whether it has determined that these:
- (a) had no market impact; and
 - (b) are not relevant to a UTS.

Please contact me if the Authority would like to discuss our feedback or if there is further information it requires.

Yours sincerely



Warwick Williams
Senior Regulatory Counsel and Group Insurance Manager

² See Ministry of Business, Innovation and Employment *Investigation into electricity supply interruptions of 9 August 2021*, at page 16.