3 February 2022

Sarah Gillies
General Manager Legal, Monitoring and Compliance
Electricity Authority
By email to UTS.2021@ea.govt.nz

Dear Sarah

Preliminary decision on August 2021 UTS claim

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) preliminary decision paper "The Authority's preliminary decision on whether an undesirable trading situation occurred on 9 August 2021" published 16th December 2021.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.

3. In preparing a draft decision for consultation, MEUG suggests the Authority provide more context and detailed analysis in addition to considering submissions on the preliminary decision paper as follows:

   a) The paper needs to explain what the potential harm is being claimed in the UTS to assist all classes of consumer understand the relevance of the issue. Without that context we do not expect many other consumers will take an interest in how the UTS claim is resolved. For example, the EA could:

      - Estimate the Value of Lost Load (VoLL) for the approximately 34,000 consumers that were disconnected and report those dollar values by region and customer class.[2]

      - An estimate of how much compensation, if any, was received by customers that were disconnected should be published to understand if customers to date are still bearing some net liability. As above, compensation received by customers should be published by region and customer class and with the additional information of the party that paid the compensation (and any recovering upstream from other parties).

[1] Document URL https://www.ea.govt.nz/assets/dms-assets/29/9-August-2021-UTS-Preliminary-decision-paper.pdf at https://www.ea.govt.nz/code-and-compliance/uts/undesirable-trading-situations-decisions/9-august-2/.
[2] Estimate of disconnections reported in preliminary decision paper, pii.

- The impact on power bills for different classes of consumer due to scarcity prices being triggered. For consumers on fixed price variable volume contracts (i.e., most households and SME's) there will be no immediate direct impact. There could though be an impact on their choice of retailer in the future as the risk profile for small independent retailers may have increased if in future similar events lead to 10,000/MWh scarcity prices being triggered. For other consumers the impact will depend on their risk management strategy to hedge spot price uncertainty. The EA should estimate the immediate and longer-term impact on consumers exposed to spot prices with and without various hedges.

Without the above assessments interested parties have no reference to gauge how material this was and if it is or is not a precedent for future similar events. If the EA wants greater consumer engagement and feedback to test the proposition in the preliminary report that "The market operated as expected, and the events lasted for a relatively short time period"[3] then the above estimates of the scale of impact are essential.

Providing absolute dollar values, rather than just unit price effects as in the preliminary draft decision, is also consistent with the EA's indirect indicator to assess confidence:

> "The scale and duration of an event in order to assess whether it threatened confidence"[4]

b) The paper needs to explain which parties benefited and the dollar sums involved from the high prices, in some trading prices up to $10,000/MWh for scarcity prices, over the event. This is important because it assists consideration of incentives and to meet the EA's suggested indirect measure of confidence in and integrity of the market of:

> "Whether the conduct and decisions of participants were consistent with what might be expected if the market was operating normally."[5]

For example, if a participant or class of participants were clearly a primary beneficiary of the high prices paid to all suppliers in the short and or long-term, then that could lead to a line of enquiry relevant to the UTS claim and or the separate Code breach claim. See also the comments on tracking compensation payments to affected customers in a) above.

c) Referring to the first limb of the Code definition of a UTS "… any situation … (a) that threatens, or may threaten, confidence in, or the integrity of, the wholesale market,"[6] paragraph [4.17] of the preliminary decision states:

> "Assessing confidence and integrity requires the Authority to look at indicators and other indirect factors to decide whether a UTS has

[3] Ibid, pii.
[4] Ibid [4.17(b)].
[5] Ibid [4.17(c)].
[6] Ibid [4.3]

> occurred. It is not possible to directly observe or measure confidence in, or the integrity of, the wholesale market"

MEUG suggests confidence in the market can be tested by surveying participants active in the market before and after a claimed UTS event. That will require maintaining a continuously updated baseline survey of confidence against which material step changes in trends due to a claimed UTS event could be measured. While an ongoing index of participant confidence would still be a subjective (and subject to perceptions on other current policy debates at the time) and therefore of some but limited value like the indirect measures listed in paragraph [4.17], a benefit of maintaining a baseline index would be tracking if trends in confidence differed between different classes of participant.

d) Paragraph [8.23] of the preliminary decision states:

> "Note that the CAN notice issued at 06:42 signalled a low residual situation. This means that forecasts suggested that once the system had been fully dispatched, there would not be much excess generation left. These notices are relatively common and cannot be interpreted as signal of actual scarcity to the extent observed on the evening on 9 August 2021. They are a signal that if things get worse, there could be actual scarcity."

MEUG suggests the EA analyse CAN notices over the last few years to:

- test how common they are for similar circumstances as 9th August demand uncertainty in the morning for that evening peak demand when available Huntly units were not warmed up; and
- to test whether the predictions in those CAN notices had a bias, or not, to over or understate actual demand.

If there is no bias, then that raises the question of the usefulness of such CAN notices in the future and therefore what other information the market needs to avoid a repetition of the event on 9th August. If there is a bias, then remedial action will be required by the System Operator to improve tools used for forecasting.

e) Paragraph [8.26] of the preliminary decision states:

> "Genesis Energy explained that it would need to observe forecast prices of $300/MWh to commit HLY4. This amount was needed to cover fuel and the risk that HLY4 would depress prices by offering."

No indication is given in the paper that the EA checked the $300/MWh trigger point claimed by Genesis, though the paper continues:

> "The Authority's view was that the decision not to run was finely balanced based on the data. This means that Genesis Energy's decision was not unexpected given the circumstances that it faced when the decision was made. As with other decisions discussed in this paper, in retrospect a different decision would have been preferable, but that does not mean that it constitutes a UTS."

MEUG suggests the EA's analysis of the explanation by Genesis leading to the EA's view needs to be made transparent to interested parties. Questions the analysis should consider include:

- Is the claimed $300/MWh trigger point, in this case, reasonable? We accept there are many variables to estimate the trigger point to cover SRMC's alone and the value of those variables will change from month to month, day to day and trading period to trading period. Nevertheless, we are concerned the quoted $300/MWh may take on some credence that is not justified and or used for other events when estimation of the trigger point is vastly different. Hence some transparency is required as to the validity, in this event, of the claimed $300/MWh trigger point.

- The latest time that commitment could made for HLY4 to be ready to supply for the evening was following the 8:10 price forecast. The 8:10 price forecasts were below the $300/MWh trigger point, though that forecast was materially different from the price forecasts of 2:20, 4:40 and 6:10 that exceeded $500/MWh.[7] The EA should test if a reasonable trader would have considered the trend line rather than the absolute predicted values only at 8:10. Genesis may have some evidence of how decisions have been made in similar situations in the past.

4. MEUG looks forward to reading the submissions by other parties on this consultation round as early as possible and then the next consultation phase and opportunity to provide feedback on the draft decision.

Yours sincerely

Ralph Matthes
Executive Director

[7] Ibid [8.14(a)]