

3 February 2022

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Nova Energy Limited
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By email: UTS.2021@ea.govt.nz

Re: Preliminary decision on August 2021 UTS

Nova Energy agrees with the Authority that no UTS occurred on 9 August 2021.

In addition to the factor's supporting the Authority's decision that the circumstances leading to the scarcity pricing do not constitute a UTS, Nova believes the Authority should also consider the counterfactual, i.e. What would be the market impact if the Authority did determine that the event constituted a UTS?

In Nova's view, to call the circumstances of 9 August a UTS would have the direct effect of threatening confidence in the wholesale market. Generators and major electricity users are semi-continuously monitoring market conditions and making generation and consumption decisions based on market prices and signals. If they cannot rely on those signals during times of system stress because there is a significant probability that the conditions will be changed by regulation, then:

- a) Participants will factor the increased risk into their investment decisions, and
- b) there arises a risk that during such events participants will start double guessing the likely market outcomes, for instance, withholding generation because the price may be regulated downwards in any case.

The Authority's decision to reduce prices during the extended December 2019 hydro spill, but not provide for the short run marginal costs of running thermal generation that was committed on to run at the time, is an example of distorting market incentives for participants.

The market is investing significant sums to move to real time pricing. That is intended to improve the market's responsiveness to market conditions such as intermittent generation and demand, as well as providing greater certainty on final prices. Resorting to declaring a UTS whenever there are errors in market processes (e.g. The errors in Transpower's demand reduction instructions to network companies) would be contrary to those objectives.

Yours sincerely



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