

3 May 2022

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Nova Energy Limited
PO Box 3141, Wellington 6140

By email: UTS.2021@ea.govt.nz

Re: Preliminary decision on 9 August 2021 claim of an UTS – supplementary consultation

Nova Energy (**Nova**) agreed with the Authority's preliminary view that no undesirable trading situation (**UTS**) occurred on 9 August 2021. Nova still holds that view; irrespective that the Island Shortage Situation notice (**ISS**) is deemed not valid due to the System Operator (**SO**) not having issued notices giving parties instruction to disconnect demand.

It appears from your paper that the issuance of the ISS notices was caused by human error and in our view, this is a technical error. While the issuance of the ISS may not have been technically correct, the Pricing Manager still had to determine whether a scarcity pricing situation (**SPS**) existed after receiving the ISS notice, i.e. it is not a given that a SPS would apply where an ISS Notice has been issued.

While the GEN notices may have been an instruction to reduce demand under clause 6(1)(b) of the Code, the fact remains that demand was electrically disconnected during the trading periods in question. So while the ISS notice may have been technically incorrect, the market responded as if the notices were issued under clause 6(1)(d).

Once an ISS notice is received, the Pricing Manager must decide whether a scarcity pricing situation exists (clause 13.135A(2A)). If the Pricing Manager determines that a SPS exists, then certain consequences follow (clause 13.135A(5)); if a SPS does not exist then other consequences follow (clause 13.135A(6)). In your paper, you indicated that the Pricing Manager found that an SPS did in fact exist.

This was a rapidly developing situation, and the Code reflects that, i.e. the Pricing Manager **must** follow certain procedures once the ISS notice was received. The Pricing Manager had no discretion or cause to contest the validity or correctness of the ISS Notice. The Pricing Manager's decisions should therefore stand, having gone through the exercise of determining that a SPS existed in good faith. In fact the whole market responded in good faith without notice of the error.

The Authority advises¹ that it modelled the outcomes using vSPD without scarcity pricing and compared the system cost with the interim prices that include scarcity pricing. This raises some questions that are not clear from the Authority's paper:

- a) What demand did the Authority use in the vSPD model, i.e. did it use the actual demand from the pricing model, or did it add-back an estimate of the demand that would have existed if not disconnected in accordance with 'instruction' from the SO?
 - i If the former, then why would the Authority ignore the principle that the value of the disconnected demand i.e. lost load should be reflected in prices,
 - ii And if the latter, what assumptions did the Authority make to balance generation with demand?

¹ Paragraph 3.5 of the Consultation paper

- b) It is not clear why the Authority indicated the impact of scarcity pricing is approximately \$130 million when our understanding is that well over 90% of that value will be internal to the gentailers or fully hedged between retailers and generators? The merit or otherwise of declaring a UTS should be based on the facts rather than an implied suggestion that consumers are \$130 million worse off due to the errors by the SO².

The market operates, and decisions are made in real time. Errors were made by the SO, but the market still needed to meet record electricity consumption in circumstances where not all dispatchable generation was available. In such circumstances the need for reliable peak generation capacity and demand response needs to be signalled in market prices. Anything less risks damaging the integrity of the market.

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, models, equation constraints, communications, grid settings, or other issues would be contrary to those objectives.

Yours sincerely



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² [Transpower may have caused a \\$130m UTS – EA | Energy News](#)