

Market Notice

To: Market Participants
From: Electricity Commission
Date: 14 July 2006

Claimed Undesirable Trading Situation (UTS)

This notice advises market participants of a claim made to the Electricity Commission (Commission) by Genesis Energy Ltd (Genesis), which alleged an undesirable trading situation existed in respect of prices (including final and indicative prices) for lower North Island nodes for trading period 35 on Friday 28 April 2006 and also, potentially, for subsequent trading periods.

Genesis requested that:

1. as final prices had already been published for trading period 35 on 28 April 2006 which may contain errors, the Commission should direct that any trades affected by this error for that trading period, and any other trading periods the Board considers appropriate, be closed out or settled at a specified price; and
2. the Commission should delay the publication of final prices for trading periods on subsequent days where the Commission considers these trading periods are affected by the circumstances of the claim.

The Commission was advised by the system operator that an SPD modelling error had occurred that affected final prices for trading period 35 on 28 April 2006. However, the system operator confirmed that this error had been corrected in all subsequent trading periods. For this reason, the Commission did not delay the publication of final prices for subsequent trading periods.

Having now considered the UTS claim relating to trading period 35 on 28 April 2006, the Commission considers that the circumstances do not satisfy the test for a UTS under the Electricity Governance Regulations.

The full decision of the Commission will be released in due course and will be available on the Commission's website.

In reaching this decision, the Commission notes that there are no indications of a situation that poses an immediate threat to the wholesale market; that is, daily trading does not appear to be threatened and settlement for this period and subsequent periods has been orderly. The Commission also notes that the

Electricity Governance Rules promote certainty of final prices within a very short time after each relevant trading period even if those final prices contain errors.

The Commission does appreciate the concerns expressed by a range of participants relating to recent pricing outcomes. Included in these concerns are those in respect of the high price outcomes for 19 June 2006. In response to these concerns, the Commission has initiated a project to review elements of the pricing process. This is not intended as a review of nodal pricing, but rather the project will seek to clarify the inputs into the pricing model, review the process around finalising prices, and seek ways to provide more reliable forecast prices.

Another related matter is that the Commission has appointed an investigator to investigate a potential breach in relation to the constraint information input into the SPD model for trading period 35 (and other trading periods) on 28 April 2006. The notice of this investigation was published on the Commission's website.

A handwritten signature in black ink, appearing to read 'Roy Hemmingway', written in a cursive style.

For the Electricity Commission Board
Roy Hemmingway (Chair)