

CLAIM OF UNDESIRABLE TRADING SITUATION (UTS)

CONTACT DETAILS

Reporting Participant: Contact Energy Limited

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BASIS OF CLAIM

(Regulations 55(1) and (2))

Specify relevant Regulation/s under which Participant claims a UTS - refer to the relevant Regulations below

Describe why in your view the claimed UTS is a contingency or event that threatens, or may threaten, trading on the wholesale market for electricity and that would, or would be likely to, preclude the maintenance of orderly trading or proper settlement of trades.

- 1. For trading period 16 on 19 May, the indicative Final Prices were up to \$6268/MWh at MST0331 due to the Spring Washer effect. No explanation has been given as to how the above prices were derived and whether the modelled solution was consistent with actual transmission flows.*
- 2. These high prices appear to have been caused by a modelled transmission constraint centred at TKU due to the planned outage of the BPE_TKU_1.*
- 3. From what we can determine the highest generation offer on the stack was ~\$1000*
- 4. Accordingly, Contact does not believe that*
 - a. this solution reflects actual market conditions; or*
 - b. the figure of \$6268/MWh represents the intersection of demand and supply.*
- 5. Declaring a UTS allows this situation (or potential error) to be reviewed in further detail by the System Operator and the Electricity Commission prior to the publication of a Final Price. A formal explanation as to how these prices were calculated also needs to be released prior to publication.*

Describe why in your view the claimed UTS could not be satisfactorily be resolved by any other mechanism available under the rules.

6. *Whilst the spring washer correction rules have been used and prices have fallen, we are left with a price that is devoid of credibility.*
7. *The intention of the spring washer correction rules is to remove the anomalous effects of a modelled constraint. However the methodology only allows for one adjustment to the right hand side of the binding security constraint. This single iteration has not corrected the anomaly.*
8. *This outcome is unacceptable to market participants and it undermines the credibility of the price setting mechanism.*

SOLUTION SOUGHT BY APPLICANT

(Regulation 56

Specify relevant Regulation/s under which Participant claims a UTS - refer to the relevant Regulations below

Describe how in your view the claimed UTS could be resolved by the Board, bearing in mind the following powers of the Board should it find that a UTS does exist

- suspending, or limiting or curtailing, an activity on the wholesale market for electricity, either generally or for a specified period:
- deferring completion of trades for a specified period:
- directing that any trades be closed out or settled at a specified price:
- giving directions to any participant to act in a manner (not inconsistent with these regulations, the rules, or any other law) that will, in the Board's opinion, correct or assist in overcoming the undesirable trading situation:

9. *It is an integral part of any market that the clearing price reflects the intentions of participants and that participants have an accurate expectation of what prices will be prior to the publication of clearing prices. How can the market produce a price that is several times higher than the highest cleared price a participant is willing to sell at?*

10. *Contact requests that the Electricity Commission verifies that the SPD inputs (in particular the resistances/reactances for all lower North Island circuits) are correct before proceeding with the spring washer methodology as prescribed in the EGRs.*

11. *Contact believes high spring-washer prices in no way benefit the market. It is hard to find a single reason why the market should live with a price significantly above what a supplier is willing to sell at. These prices are no more than mathematical curiosities that only damage the integrity of the market and put purchasers under undue risk. Contact implores the Electricity Commission to implement options to cap energy prices at levels that are:*

- *Simple to understand*
- *Intuitively represent the aggregate supply/demand balance (rather than complex transmission trade-offs)*
- *Consistent with levels that a supplier is willing to sell at; as such prices should be capped at the loss adjusted equivalent of the highest cleared offer price.*

WHEN CLAIMED UTS OCCURRED

Date: 19 May 2009

Time: Trading periods 16

DESCRIPTION CIRCUMSTANCES AND IMPACT

Please provide description of the circumstances surrounding the claim and include a detailed description of the impact you have suffered as a result of the claimed UTS which must be supported by a statement from the CEO of your company.

It is estimated that Contact could have in the order of ~\$0.6m exposed if these prices become Final Prices, however there is too much uncertainty in the price setting mechanism to quantify this amount at this time.

Please send completed form to compliance@electricitycommission.govt.nz

Regulation 55(1) and (2) Meaning of undesirable trading situation—

- (1) An undesirable trading situation means any contingency or event—
 - (a) that threatens, or may threaten, trading on the wholesale market for electricity and that would, or would be likely to, preclude the maintenance of orderly trading or proper settlement of trades; and
 - (b) that, in the reasonable opinion of the Board, cannot satisfactorily be resolved by any other mechanism available under the rules.

- (2) Without limiting subclause (1), an "undesirable trading situation" includes—
 - (a) manipulative or attempted manipulative trading activity;
 - (b) conduct in relation to trading that is misleading or deceptive, or likely to mislead or deceive;
 - (c) unwarranted speculation or an undesirable practice;
 - (d) material breach of any law;
 - (e) any exceptional or unforeseen circumstance that is at variance with, or that threatens or may threaten, generally accepted principles of trading or the public interest.

Regulation 56 Actions Board may take to correct undesirable trading situation—

- (1) If the Board finds that an undesirable trading situation is developing or has developed, it may take any of the steps listed in subclause (2) in relation to the wholesale market for electricity that the Board considers are necessary to correct the undesirable trading situation.

- (2) The steps that the Board may take include any 1 or more of the following:
 - (a) suspending, or limiting or curtailing, an activity on the wholesale market for electricity, either generally or for a specified period;
 - (b) deferring completion of trades for a specified period;
 - (c) directing that any trades be closed out or settled at a specified price;

- (d) giving directions to any participant to act in a manner (not inconsistent with these regulations, the rules, or any other law) that will, in the Board's opinion, correct or assist in overcoming the undesirable trading situation.
- (3) The participant must comply promptly with any direction given to it in writing.
- (4) Neither a participant nor the Board is liable to any other participant in relation to the taking of any action, or any omission, that is reasonably necessary for compliance with a Board direction under this regulation.