

Update on the Commission decision to delay the publication of final prices for 19 June 2006

On 19 June 2006, cold weather across New Zealand contributed to a new peak electricity demand of 6630MW. Insufficient generation offers, a transmission restriction affecting the output of one power station on the Waikato River, and an earlier unplanned outage on HVDC equipment meant that the system operator had difficulties in meeting both the energy and the reserve requirements of the power system during this peak. The system operator declared a grid emergency from 17:34 to 20:00 hours.

On 20 June 2006, provisional prices were published for 19 June 2006. These prices contained model infeasibilities for trading periods 35 and 36. These infeasibilities were resolved on 22 June 2006. However, due to the high feasible prices and concerns raised by a number of participants, the decision was made by the Commission to order a delay to the publication of the final prices and final reserve prices for 19 June 2006 to allow time for a review of the pricing process and inputs for trading periods 35 and 36.

The Commission asked for, and received, a report from the pricing manager on the inputs and process used in calculating these prices. This report was made available to participants with the Commission's notices to the market on 4 and 6 July 2006 and can be viewed at <http://www.electricitycommission.govt.nz/pdfs/opdev/wholesale/19Jun06-High-Pricesv2.pdf>.

The pricing manager concluded that it was satisfied that final prices for 19 June 2006 as calculated on 22 June 2006 are correct to the extent that:

- a. the pricing process was performed correctly;
- b. the database was "refreshed" following advice from the grid owner that the infeasibilities had been removed;
- c. there are no infeasibilities in the final pricing solve; and
- d. to the best of its knowledge, the inputs provided under the Rules by other parties which are required to perform the pricing process in accordance with the Rules, were present and correct.

The pricing manager's report also included an explanation of how the energy prices were derived in the SPD model, using the WKM2201 node as an example. This verified the incremental costs of providing an additional 1MW at WKM2201 were the final prices as now published.

Final prices and final reserve prices for trading periods 1-34 and 37-48 were published on 6 July 2006.

The Board met on 11 July 2006 to consider the publication of final prices for trading periods 35 and 36. The Board considered the pricing manager's report together with correspondence from participants, and concluded that there was no reason to continue with the delay to the publication of the final prices and final reserve prices for these trading periods. Accordingly, the Board ordered that they be published. The pricing

manager announced the publication of these prices in an email to participants at approximately 11:50am on 11 July 2006.

The Commission is aware of a range of concerns expressed by participants relating to the pricing process. In addition to the current initiatives such as the high spring washer pricing proposal the Board has requested a review of aspects of the pricing process, including looking at the clarity of the inputs into final prices and a methodology for giving a better indication of the likely final prices when infeasibilities occur in the forecast, dispatch or 5 minute prices.