CLAIM OF UNDESIRABLE TRADING SITUATION (UTS)

<u>CONTACT DETAILS</u>

Reporting Participant:	*Meridian Energy Limited*
Contact Name:	*Neal Barclay, General Manager, Markets and Production*
E-mail:	*neal.barclay@meridianenergy.co.nz*
Phone:	*04 381 1226*
Mobile:	*027 230 1904*
Fax:	*04 381 1201*

BASIS OF CLAIM

Definition of "undesirable trading situation", clause 1.1 of the Code

Specify relevant paragraphs under which Participant claims a UTS - refer to the full definition set out 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. *Meridian wishes to advise the Electricity Authority of a UTS relating to offer behaviour in the North Island on 26 March 2011. Meridian considers that the EA should defer determination and publication of final prices while it investigates the event so that all remedies remain available. Meridian is happy to provide further information to assist the EA in its investigation.*
2. *This notice relates to Genesis Energy's offer behaviour on the 26 March 2011.*
3. *During this time, Transpower was undertaking planned maintenance on three 110kV circuits between Arapuni and Bombay along with two 220kV circuits between Otahuhu and Whakamaru, significantly reducing the transmission capacity from the Waikato Region to the Auckland Region. As a result, Genesis Energy's Huntly generation was required to support load in the upper North Island and Genesis Energy had an opportunity to set the price in this region (i.e. Genesis Energy could effectively "name its price" for this region during this period).*
4. *As seen in the attached offer graphs from the day, Genesis used this opportunity to adjust its offers for Huntly Units 2, 5 and 6 to between $19,000/MWh and $20,000/MWh. In our view, this behaviour was premeditated in that the pricing outcomes which eventuated would have been obvious at the time the offers were made.*
5. *Dispatch Prices during this period ranged from $19,200/MWh to $19,750/MWh.*
6. *These high prices appear to have been caused by a deliberate change in offer prices of Huntly Units 2, 5 and 6 for the anticipated duration of the transmission outages. These offer prices are well above historical maximum offer tranches seen at Huntly, which have typically been around $5,000/MWh.*
7. *Based on its initial calculations, Meridian believes that its exposure over this period to be approximately* [confidential] *$*[redacted]*. It estimates the exposure for North Island purchasers in total to be approximately* [confidential] *$*[redacted] *to* [confidential] *$*[redacted]*. End customers (such as large industrials) who are exposed to spot market prices will see some of this cost. Meridian requests that the figures in this paragraph be treated as confidential and commercially sensitive by the EA.*
8. *While Meridian would not normally consider "high prices" as triggering a UTS, it believes that this situation is exceptional. In particular: offer prices and potential exposures of retailers are an order of magnitude greater than experienced at other similar periods of transmission constraint*
    a. *The. The market cannot literally be "anything goes" if it is to retain the confidence of*

electricity users. This outcome would be undesirable.

   b. *The extent of the exposure could give rise to solvency issues for small retailers or customers facing spot prices. As a result, market settlement may be at risk.*
   c. *Faced with the possibility of such events recurring, retailers who are not fully hedged (see below re the possibility of obtaining new hedges) may be forced to consider urgently selling off parts of their customer books .*
   d. *If this pricing outcome is condoned by the EA, other participants may consider following suit whenever they have the opportunity. For example, if a participant is suffering large losses it may be forced to compensate through opportunistically raising offer prices above its normal pricing practices whenever the opportunity arises. The sort of transmission constraints which were taken advantage of by Genesis are a common occurrence. Other generators in this position have not acted in the same way. The likely reason for self-restraint is the risk that such behaviour could jeopardise the market as a whole. If the EA does not act in this situation, it may set a $20,000/MWh benchmark as the new norm for such situations.*

9. *Accordingly, in terms of the definition of a UTS, Meridian is concerned that if the indicative prices for the period referred were to become Final Prices, this may threaten orderly trading (e.g. through making $20,000/MWh the new norm or if some retailers respond by shedding customers), may threaten proper settlement (e.g. if retailer solvency is at issue), and may be at variance with generally accepted standards of trading (including self-restraint) and the public interest.*
10. *In short, Meridian's concern is that the viability of the market could be threatened if this sort of behaviour becomes the new norm.*

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

11. *Meridian does not believe that there are any other mechanisms in the Code that would address the issues set out above.*
12. *Meridian and other participants could seek hedges, however, this is often a costly exercise and would not mitigate all circumstances. If this offer behaviour becomes the new norm, then Meridian doubts that hedging will be able to offset the risk. Rather, it is more likely that new entrants will exit the market and incumbents will retrench market position. This will reduce competition while customer bills will increase materially.*

SOLUTION SOUGHT BY APPLICANT

Clause 5.2 of the Code

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 the Code, any regulations, the Act, or any other law) that will, in the Board's opinion, correct or assist in overcoming the undesirable trading situation:

1. *In order to resolve the matter satisfactorily, Meridian requests the EA to launch a formal investigation into the events so that no remedies are foreclosed in the meantime.*
2. *Meridian requests that the formal investigation be completed within 5 working days and remedies applied so that the market can restore certainty in a short period.*
3. *Finally, as an interim measure, Meridian requests the EA to defer determination and publication of final prices until the investigation is complete.*

WHEN CLAIMED UTS OCCURRED

Date: *26 March 2011*

Time: *10.30am to 5.40pm*

DESCRIPTION CIRCUMSTANCES AND IMPACT

Please provide description of the circumstances surrounding the claim and include a detailed description of the impact the notifying participant suffered as a result of the claimed UTS.

See information provided above.

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