

CLAIM OF UNDESIRABLE TRADING SITUATION (UTS)

CONTACT DETAILS

Reporting Participant: Air New Zealand

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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.

Air New Zealand submits that the March 26 situation satisfies the definition of an undesirable trading situation as it constitutes:

- Manipulative or attempted manipulative trading activity (b(i))
- Unwarranted speculation of an undesirable practice (b(iii))
- Exceptional or unforeseen circumstances that is at variance with, or that threatens or may threaten, generally accepted principles of trading or the public interest (b(v))

Genesis Energy's actions on March 26 of raising offer prices to an unprecedented extreme level undermine confidence in the wholesale electricity market and constitute an exercise of market power that has the potential to negatively impact on consumers into the future. Failure to address this situation will effectively endorse the exercise of market power and lead to more occurrences of this type of manipulation.

Pricing in the market is intended to serve as a signal for the need for new investment in generation. However, Genesis took advantage of a planned maintenance event to exploit its temporary market power to the disadvantage of other market participants and consumers. If this pricing is allowed to stand, it will inevitably impact on the overall market, resulting in future pricing for all consumers being higher than necessary. This is clearly not in the public interest.

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

2.

Air New Zealand does not believe there are any other mechanisms in the Code to address this situation.

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:

Air New Zealand considers the Authority should direct that trades during the relevant period be settled at a specified price, determined by the Authority and reflecting a competitive market outcome.

Air New Zealand also believes the Authority should consider giving directions to participants as to appropriate pricing behaviour (i.e. reflecting competitive market outcomes) during future similar situations.

WHEN CLAIMED UTS OCCURRED

Date: March 26 2011

Time: 10:am – 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.

Maintenance to transmission circuits between Waikato and Auckland on March 26 resulted in Genesis having a temporary monopoly on generation for the upper North Island. This resulted in extremely high market prices well above historical levels.

Air New Zealand estimates a cost increase for the month of March across the entire network to be approximately 3.4%, with effected sites experiencing up to 126% increases for the month.

In addition to the financial impact to Air NZ directly, an Air NZ supplier concerned about the impact to them of the power price had planned mitigation action that while dealing with the financial aspect would have exposed Air New Zealand to operational business continuity risk. Air NZ management took urgent action to prevent this from happening however feel the situation can be avoided altogether in future through appropriate actions being taken in this instance by the Electricity Authority.

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