

Delayed final prices for trading period 37 on 29 April 2007

Exemption to pricing manager

The Commission has granted an exemption to the pricing manager to allow calculation of the final prices for trading period 37 on 29 April 2007 using the new high spring washer pricing situation (HSWPS) methodology.

Prior to granting this exemption the Commission considered eight submissions from participants, of which two were opposed to the exemption, two gave it qualified support and four supported it outright. In this notice the Commission briefly comments on the concerns raised in some submissions.

1. The Commission has interfered with the market price setting process

The Commission does not set out to interfere in the pricing process and would much prefer that pricing problems were resolved by the processes contained within the Electricity Governance Rules 2003 (Rules). The high benchmark that needs to be met before the Commission accepts an event as giving rise to an undesirable trading situation (UTS) or qualifies for an exemption demonstrates this reluctance to interfere.

The Commission considers that, in this case, it was appropriate to grant the exemption, because:

- a. the prices were the result of a HSWPS;
- b. rules to address high spring washer price situations such as this have been approved by the Minister and are due to come into effect soon; and
- c. as discussed further below, indicative pricing indicated final prices would be at exceptional levels (with aberrant features such as some generators paying to generate and some purchasers being paid to consume).

It should be noted that underway within the Commission is the Pricing Process Improvement Project (PPIP). The Board initiated the project following the Board's and participants' concerns resulting from pricing events, UTS claims and alleged breaches of the Rules in 2005 and 2006. This project is looking at the overall pricing process, the process related to the rule that authorises the Board to delay the publication of final prices and at the UTS provisions. The Commission is close to preparing a first draft of a consultation paper – advice will first be sought from the Wholesale Market Advisory Group (WMAG) before being released for full consultation.

2. *A precedent has been set and any future high spring washer events should be treated in a similar way*

In this instance the pricing manager, when calculating the final prices for 29 April 2007, noticed, while carrying out its usual checks, that the prices for trading period 37 looked “unusual” and brought this to the attention of the Commission. The Commission ordered the delay to allow time to check the inputs and processes used to calculate the prices – had these prices been published as final they would have been the highest (and lowest) prices published since the beginning of the Rules.

The Commission will consider any future instances of extreme prices on their merits. The Commission is mindful of not setting precedents that may indicate a willingness to interfere with the normal market operation. The Commission also notes the very high thresholds required before any intervention will be considered.

3. *The long delay between the first High Spring Washer event and the new rules coming into force*

The Commission acknowledges that there has been a delay between the event that first raised the high spring washer issue (the Bay of Plenty UTS) and the implementation of the high spring washer rules. There are a number of reasons for this time period, including:

- the time to consider the original UTS;
- the time to establish a specialized working group to consider constraint issues;
- the time for the group to receive and analyse specialist advice and to form its recommendations;
- the time to convert those recommendations into rule changes, with a cost benefits analysis;
- consultation on the rules changes, including analysis of submissions and as necessary amending the proposal in response to submissions;
- obtaining the Minister’s approval and the 28 day gazetting period; and
- time to implement the software solution.

The Commission is always looking at ways to speed the process up without compromising the proper level of industry involvement and adherence to good administrative law processes.

4. *Other Issues*

- a. Submitters suggested that the calculated prices for trading period 37 on 29 April 2007 were not “unprecedented” – the Commission believes that had these prices been published as final they would have been the highest (\$38,020 at MGM0331) and the lowest (-\$6,322 at WPW0331) for which electricity had been traded since the beginning of the Rules. The Commission’s analysis indicates the previous highest price was

\$13,062 at KTA0331 on 19 June 2006 and the previous lowest was -\$1,317 TKU0331 on 21 August 2004.

- b. One submitter suggested price caps should be implemented – the Commission considers that price caps are a fundamental change and are better suited to consideration as part of improvements coming out of the market design review. Submissions on the Market Design Review issues Paper close on 29 June 2007¹.

¹ The Market Design Review Issues Paper can be found at <http://www.electricitycommission.govt.nz/consultation/mktdesignreview/view>