

17 August 2020

Doug Watt
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Electricity Authority
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RE: Consultation on UTS preliminary decision

Dear Doug

Thank you for the opportunity to comment on the Authority's draft decision released 30 June 2020 relating to the UTS claim submitted 12 December 2019.

In particular you ask for feedback on:

a. **The framework for analysis.**

We agree with the framework adopted. In particular we draw attention to para 4 under Framework for investigation on page ii.

"The Authority considers that if wholesale market outcomes reflect the supply and demand conditions, then there is no reason for confidence or integrity to be undermined. Conversely, if spot market outcomes vary widely from the underlying supply and demand conditions, then confidence or integrity may have been undermined and a UTS might have developed".

The Authority market monitoring team are well aware of the lack of confidence NZ Steel has had in the electricity markets for extended periods in the past 24 months. When situations such as those investigated arise with elevated spot prices while water is being spilled with no transmission constraints, this further erodes any remaining confidence in the integrity of the spot market. This is both by both senior management and our production teams endeavouring to operate complex production units in the most efficient way possible and where energy is a key input cost.

We commend the authority for the framework of the investigation.

b. **Factors considered.**

We agree with factors considered and in doing so we note work continues as to whether a breach of the HSOTC provisions has occurred.

The time taken in investigating both the UTS claim and alleged breach of the HSOTC are of concern. The complexities are acknowledged, but given the implications relating to

confidence in the markets, processes need to be developed and resourced to have these investigations completed in a matter of weeks not months.

c. Impacts on NZ Steel

Impacts have been both direct and indirect.

As indicated above the spilling of water for no apparent valid technical reason has further undermined the creditability of the spot market. This perception lingers until its validity is tested and extends to questioning the integrity of the markets, both spot and futures. The situation is exacerbated by the fact it took impacted parties to formally lodge a UTS before the Authority acted, then several months go by before a conclusion is reached, never mind any refinements to market rules promulgated and/or sanctions imposed.

Based on the EA's analysis, NZ Steel has been over-charged \$950,000 for the 16 days identified in the preliminary decision report. We are unable to accurately determine the impact on electricity futures negotiated over the period in question.

In summary NZ Steel supports the conclusions reached in the report and asks the Authority to act expeditiously. This is to avoid a repeat of such an event, help restore confidence in the markets, and to rectify the financial imbalance that occurred.

Yours sincerely

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