



19 June 2024

Electricity Authority

By email to: [uts.2024@ea.govt.nz](mailto:uts.2024@ea.govt.nz)

Tēnā koe,

## **Response to Preliminary Decision on Whether an Undesirable Trading Situation Occurred on 9 August 2021**

Thank you for the opportunity to respond to the preliminary decision on whether an undesirable trading situation (UTS) occurred on 9 August 2021.

Contact Energy supports the Electricity Authority's (Authority) preliminary decision that a UTS occurred. Accurate price signals are essential for ensuring trust in the market to support commitment decisions and investment decisions.

On 9 August 2021 there was 80MW of unpriced demand response. This curtailed market prices, and did not lead to the pricing the market would expect in tight market conditions.

Short-term high prices in the wholesale market have a limited impact on retail customers, however, are crucial for the proper functioning of the market. It means that it is efficient to bring on high-cost assets, such as the diesel plant at Whirinaki, and provide the right market signal for demand response like New Zealand Aluminium Smelters (NZAS).

High prices when the market is tight are also crucial for investment decisions, particularly for assets that help ensure there is enough energy in the market during peak periods, such as grid scale batteries, or thermal peaking plants. These are high-cost assets that only run occasionally, needing to spread their full capital costs over short periods of time. Transpower has noted that it is crucial that more of these assets are added to the market as peak demand continues to grow.

*more flexible supply and demand-side resources are needed in the market to meet the energy and capacity challenge for a reliable and efficient electricity system that supports increased electrification and decarbonisation of the economy.<sup>1</sup>*

While the specific circumstances that led to prices being artificially depressed on 9 August 2021 cannot occur in the new 5-minute dispatch model, we agree with the Authority that it is important to respond to this particular case. If the market is confident that any undesirable trading situation will be resolved, it will broadly improve confidence.

However, to fully protect market signals the Authority should expand its analysis to also include the impact of other actions taken by Transpower, such as requests to drop off ripple controlled hot water demand. The Authority has decided to not consider the impact of ripple control because it "is used routinely in the power system". However its routine use is for network purposes. It is not routine to call it to substitute for generation, and when Transpower did this it meant that assets in the market were not rewarded as expected.

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<sup>1</sup> [https://static.transpower.co.nz/public/bulk-upload/documents/Winter\\_2024\\_Outlook.pdf?VersionId=DPFASMT6ciqNPngxy5oXP4ZEUH.RrFEJ](https://static.transpower.co.nz/public/bulk-upload/documents/Winter_2024_Outlook.pdf?VersionId=DPFASMT6ciqNPngxy5oXP4ZEUH.RrFEJ).

Please contact me at [brett.woods@contactenergy.co.nz](mailto:brett.woods@contactenergy.co.nz) if you wish to discuss further.

Ngā Mihi,

A handwritten signature in blue ink, appearing to read 'Brett Woods', written in a cursive style.

Brett Woods  
Head of Regulatory and Government Relations  
Contact Energy.