

29 May 2024

Submissions
Electricity Authority
PO Box 10041
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Nova Energy Limited
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By email: UTS.2024@ea.govt.nz

Re: Authority's preliminary decision on whether an undesirable trading situation occurred following 16 February 2024

Nova Energy (**Nova**) agrees with the Authority's view that without applying scarcity pricing, spot market prices on 9 August 2021 do not reflect the underlying market fundamentals or provide appropriate price signals. As such, an undesirable trading situation (**UTS**) has developed for trading periods 37 – 42 on 9 August 2021. It is therefore incumbent on the Authority under the Electricity Industry Participation Code 2010 (the **Code**) to declare a UTS and ensure that the prices for those trading periods reflect the marginal cost of demand reductions through applying scarcity pricing as appropriate.

In Nova's view the Authority's analysis of the circumstances of the events on 9 August is thorough and arrives at appropriate conclusions. The Authority notes in its paper that given its statutory objectives¹, it supports its preliminary decision, in particular to:

- 'encourage industry participants to efficiently develop and operate the electricity system to manage security and reliability in ways that minimise total costs whilst being robust to adverse events,' and
- '...particularly in regard to preserving efficient incentives for investment and innovation.'

The Authority notes² 'The absence of scarcity being reflected in final prices reduces the incentives for last resort generation...', but that point is probably less significant than the importance of high prices on all generation and similarly, demand response capability.

Scarcity pricing, occurring when there is a shortage of generation capacity, incentivises all generators to maintain high levels of reliability from their generation plant.

It is not only the last-resort generation plant that is impacted by high spot market prices. Genesis Energy was no doubt ruing the opportunity cost of the weed blockages at Tokaanu on the evening of 9 August, along with any other dispatchable generation that may have not been available due to maintenance outages at the time. As such, ensuring that the market accurately reflects scarcity pricing during peak demand periods has the impact of ensuring that every generator is incentivised to maintain a high level of plant reliability, not just the generator of last resort.

Maintaining plant reliability has a direct cost for generators. Improving plant reliability requires increased attention to potential faults, and as such:

- increased maintenance downtime,
- earlier replacement of end-of-life parts,
- higher parts inventories, and
- greater investment in ancillary plant and equipment.

¹ Paragraph 6.2 and the Electricity Industry Act 2010

² Paragraph 10.22

As the electricity market becomes more reliant on geothermal, wind, and solar generation its reliance on dispatchable generation is going to increase.

Not only does that mean that plant reliability becomes more critical, but the availability of fuel to support thermal plant also becomes increasingly important. Reserving thermal fuel for critical periods in the electricity market has a significant cost. Thermal generators must receive adequate recompense to incentivise them to ensure they have fuel available when there is a risk in the market of load being disconnected.

It might be argued by some parties exposed to the wholesale market on 9 August that the market pricing system has changed, and prices should be left as per the High Court decision. If the Authority considers a UTS has developed, the Code requires the Authority to correct a UTS to restore the normal operation of the wholesale market. The Authority previously exercised its power to take corrective action in its decision to reset spot prices for December 2019. In fact some parties exposed to 9 August were also likely beneficiaries of the December 2019 decision.

Even though real time pricing has changed the way scarcity pricing is applied, there is still potential for wholesale spot prices to again be challenged and revised in future, for instance, under the trading conduct rules. The Authority must be consistent in performing its role in alignment with its objectives, and as such, the only reasonable action it can take is to declare a UTS for 9 August 2021 and ensure that scarcity pricing is factored into the final pricing calculations.

Yours sincerely



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