16 September 2024

ELECTRICITY AUTHORITY
TE MANA HIKO

Trading conduct report 8-14 September 2024

Market monitoring weekly report

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1. Overview

1.1. Prices increased this week, compared to last week, but were still frequently below the historical median. Thermal generation remained low, with only Huntly 5 and one Rankine providing baseload generation each day. National controlled hydro storage increased to ~103% of mean, however, national storage began to plateau towards the end of the week.

2. Spot prices

2.1. This report monitors underlying wholesale price drivers to assess whether trading periods require further analysis to identify potential non-compliance with the trading conduct rule. Suspected non-compliance situations may be passed onto the Authority's compliance team. In addition to general monitoring, this report also singles out unusually high-priced individual trading periods for further analysis by identifying when wholesale electricity spot prices are outliers compared to historic prices for the same time of year.

2.2. Between 8-14 September:

(a) the average wholesale spot price across all nodes was $72/MWh.

(b) 95% of prices fell between $0.01/MWh and $238/MWh.

2.3. Overall, the majority of spot prices were within $8-$124/MWh, with the weekly average price increasing by around $54/MWh compared to the previous week.

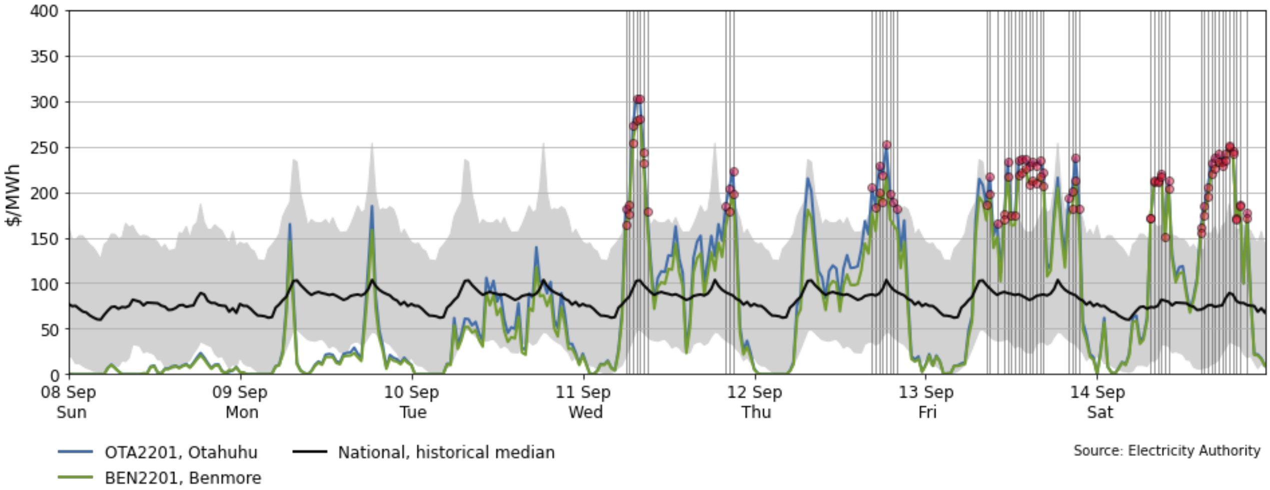
2.4. Prices were mostly below the historic median at the start of the week, rising above it when wind was over forecast during peak demand periods on Monday and Tuesday, as well as on Tuesday afternoon.

2.5. Prices were higher from Wednesday onwards (which was when Tiwai demand increased by 20 MW) often exceeding $200/MWh during shoulder and peak demand periods. Several instances of highly inaccurate wind and demand forecasting, required higher-priced hydro and thermal generation to be dispatched, which likely contributed to many of these high prices. Wind was over forecast by more than 100MW at the times of highlighted prices on Wednesday, Thursday and Friday. Demand was under forecast by more than 100MW when prices were highlighted on Thursday, Friday and Saturday.

2.6. The Ōtāhuhu spot price reached a maximum of $302/MWh at 7:30am on Wednesday. Demand was under forecast by 97MW and wind was over forecast by 122MW at the time, requiring higher-priced hydro generation to be dispatched.

2.7. Figure 1 shows the wholesale spot prices at Benmore and Ōtāhuhu alongside the national historic median and historic 10-90th percentiles adjusted for inflation. Prices greater than quartile 3 (75th percentile) plus 1.5 times the inter-quartile range of historic prices, plus the difference between this week's median and the historic median, are highlighted with a vertical black line. Other notable prices are marked with black dashed lines.

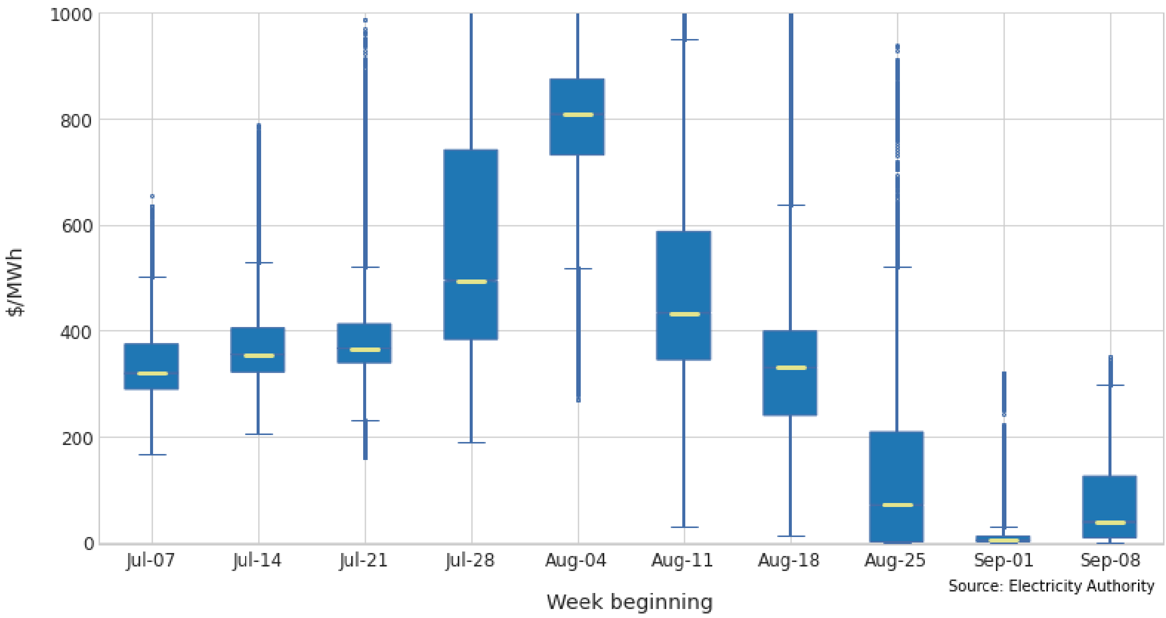
Figure 1: Wholesale spot prices at Benmore and Ōtāhuhu, 8-14 September



2.8. Figure 2 shows a box plot with the distribution of spot prices during this week and the previous nine weeks. The yellow line shows each week's median price, while the blue box shows the lower and upper quartiles (where 50% of prices fell). The 'whiskers' extend to points that lie within 1.5 times of the interquartile range (IQR) of the lower and upper quartile. Observations that fall outside this range are displayed independently.

2.9. Compared to the previous week, the median price increased by $34/MWh. The interquartile range also increased, though more than 75% of this week's prices were below the median price of any of the previous nine weeks, except the two most recent weeks.

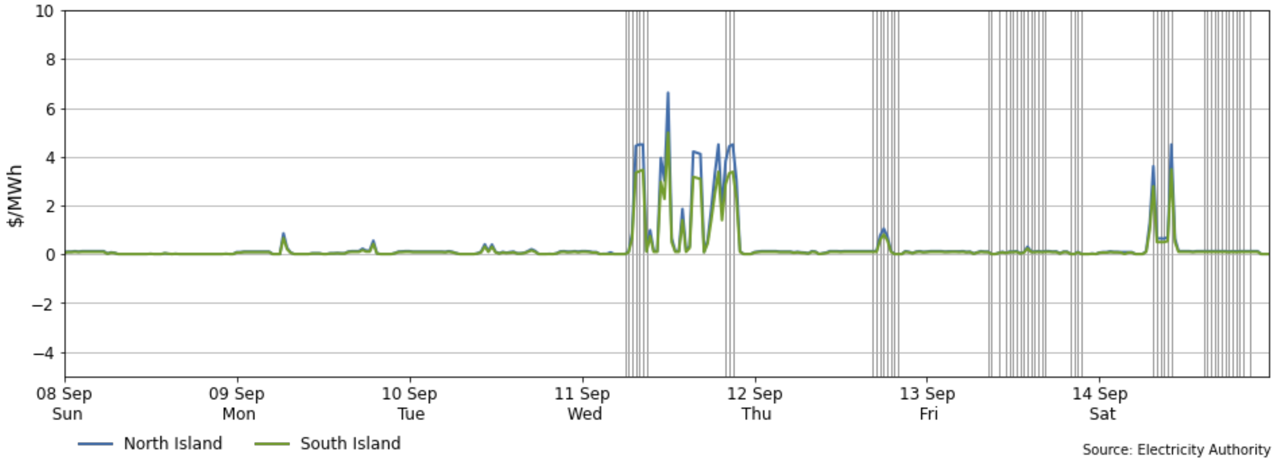
Figure 2: Box plot showing the distribution of spot prices this week and the previous nine weeks



3. Reserve prices

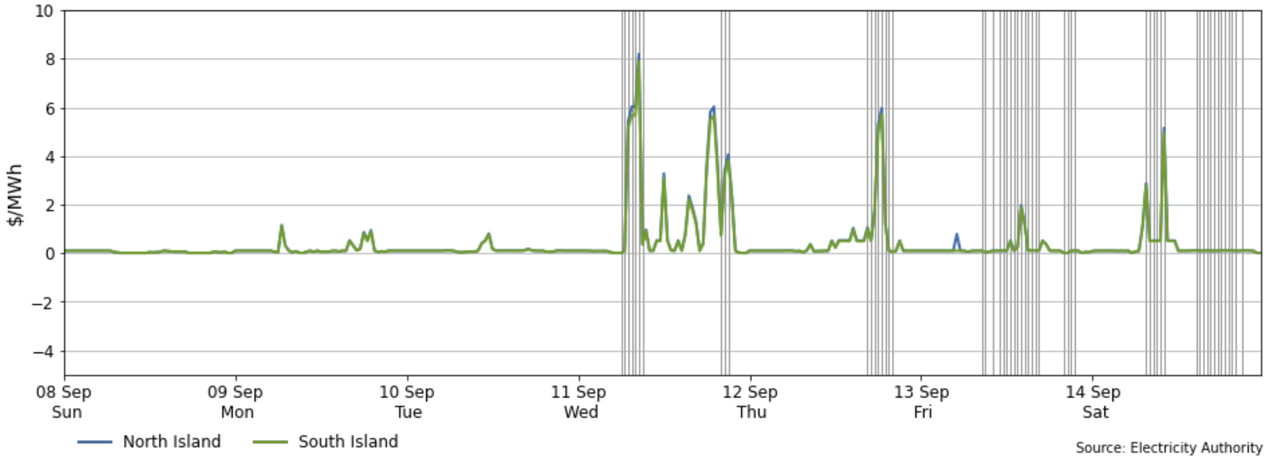
3.1. Fast instantaneous reserve (FIR) prices for the North and South Islands are shown below in Figure 3. FIR prices were mostly below $1/MWh this week, reaching a maximum of $7/MWh in the North Island at midday on Wednesday.

Figure 3: Fast instantaneous reserve price by trading period and island, 8-14 September



3.2. Sustained instantaneous reserve (SIR) prices for the North and South Islands are shown in Figure 4. SIR prices were mostly below $1/MWh this week, reaching a maximum of $8/MWh in both islands at 8:30am on Wednesday.

Figure 4: Sustained instantaneous reserve by trading period and island, 8-14 September



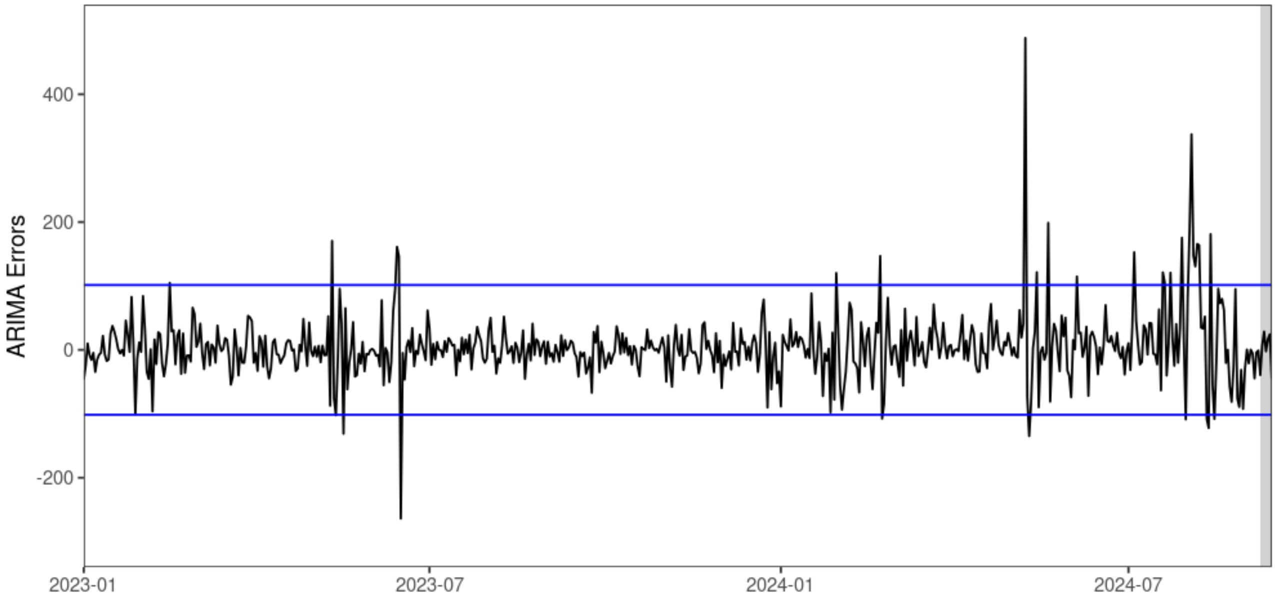
4. Regression residuals

4.1. The Authority's monitoring team uses a regression model to model electricity spot prices. The residuals show how close predicted spot prices were to actual prices. Large residuals may indicate that prices do not reflect underlying supply and demand conditions. Details on the regression model and residuals can be found in Appendix A.

4.2. Figure 5 shows the residuals of autoregressive moving average (ARMA) errors from the daily model. Positive residuals indicate that the modelled daily price is lower than the actual average daily price and vice versa. When residuals are small this indicates that average daily prices are likely largely aligned with market conditions. These small deviations reflect market variations that may not be controlled in the regression analysis.

4.3. This week, there were no residuals above or below two standard deviations of the data, indicating that prices were similar to what the model expected.

Figure 5: Residual plot of estimated daily average spot prices, 1 January 2023 – 7 September 2024

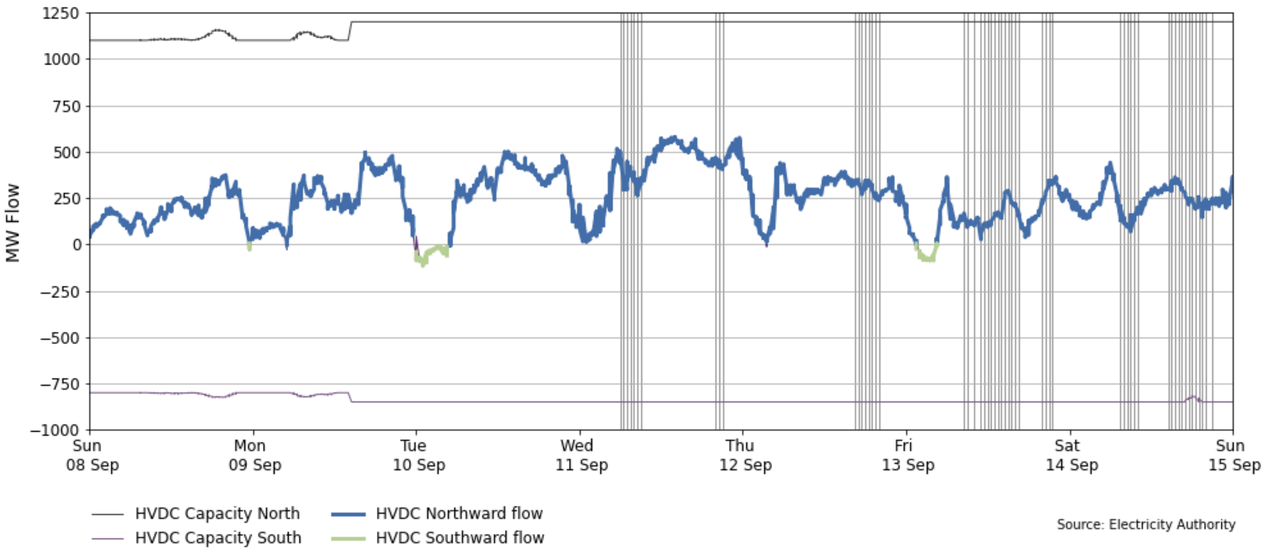


Source: Electricity Authority/see Appendix A

5. HVDC

5.1. Figure 6 shows the HVDC flow between 8-14 September. Due to increased hydro storage and generation, and lower South Island demand due to the Tiwai demand response, the HVDC flow was almost entirely Northward this week.

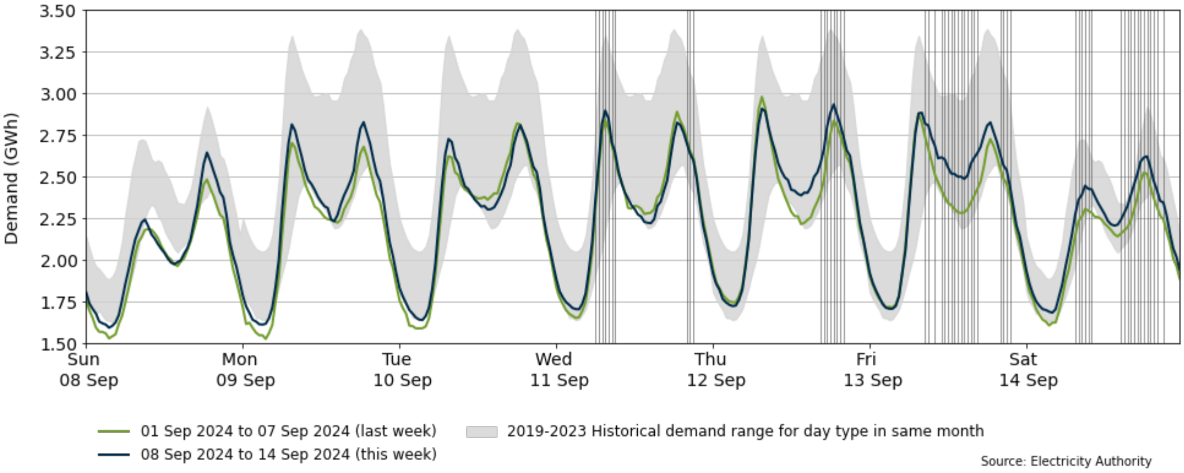
Figure 6: HVDC flow and capacity, 8-14 September



6. Demand

6.1. Figure 7 shows national demand between 8-14 September, compared to the historic range and the demand of the previous week. Demand remained low this week, within or below the historical range for this time of year, due to above average temperatures and the reduction in demand from Tiwai. It increased from Thursday onwards after temperatures decreased, with the weekly maximum of 2.93GWh occurring at 6:30pm on Thursday.

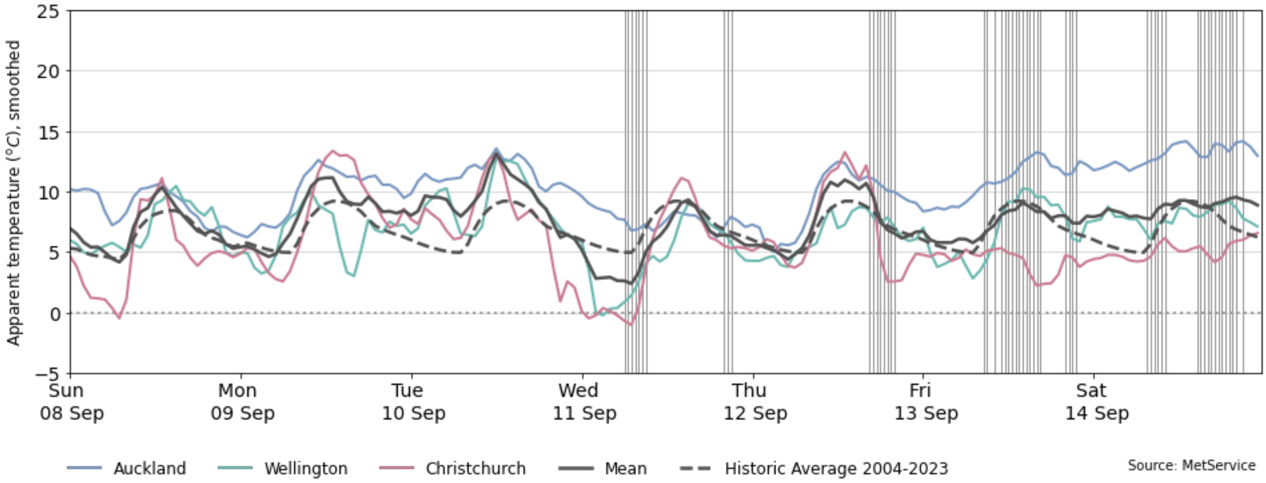
Figure 7: National demand, 8-14 September compared to historic range and previous week



6.2. Figure 8 shows the hourly apparent temperature at main population centres from 8-14 September 2024. The apparent temperate is an adjustment of the recorded temperature that accounts for factors like wind speed and humidity to estimate how cold it feels. Also included for reference is the mean temperature of the main population centres, and the mean historical apparent temperature of similar weeks, from previous years, averaged across the three main population centres.

6.3. Temperatures ranged from 4°C to 15°C in Auckland, -1°C to 13°C in Wellington, and -1°C to 14°C in Christchurch. Temperatures were mostly close to or above average until Wednesday this week, then decreased, particularly in Wellington and Christchurch. Low temperatures in the last half of the week led to increased demand, likely contributing to higher prices.

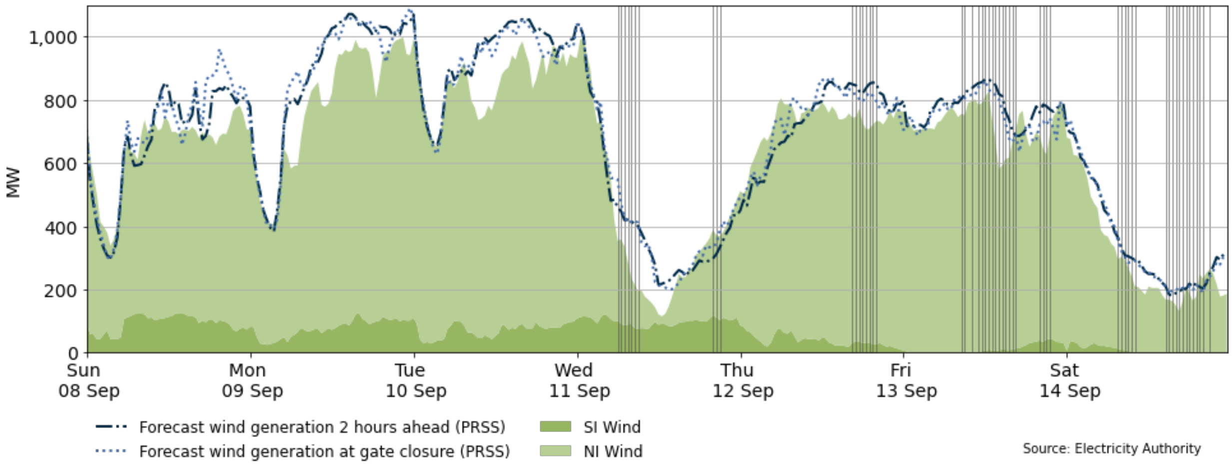
Figure 8: Temperatures across main centres, 8-14 September



7. Generation

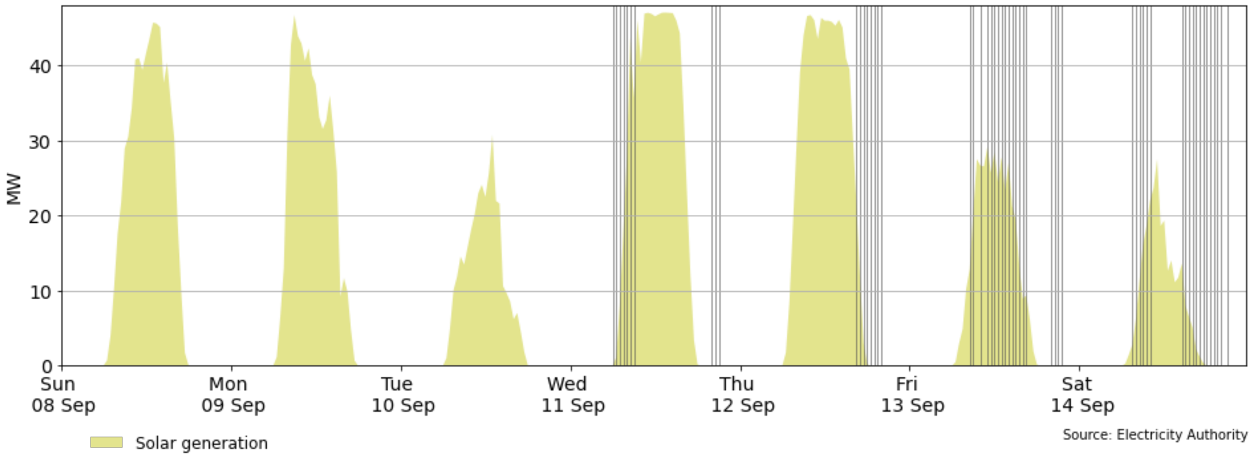
7.1. Figure 9 shows wind generation and forecast from 8-14 September. This week wind generation varied between 115MW and 998MW, with a daily average of 635MW. Wind generation was low and/or below forecast at the times many of this week's highlighted prices occurred. The large forecasting inaccuracies seen this week are being further analysed by the market monitoring team.

Figure 9: Wind generation and forecast, 8-14 September



7.2. Figure 10 shows solar generation from 8-14 September. Maximum daily solar generation was over 40MW each day except Tuesday, Friday and Saturday.

Figure 10: Solar generation, 8-14 September



7.3. Figure 11 shows the difference between the national real-time dispatch (RTD) marginal price and a simulated marginal price where the real-time wind and demand matched the 1-hour ahead forecast (PRSS[1]) projections. The figure highlights when forecasting inaccuracies are causing large differences to final prices. When the difference is positive this means that the 1-hour ahead forecasting inaccuracies resulted in the spot price being higher than anticipated - usually here demand is under forecast and/or wind is over forecast. When the difference is negative, the opposite is true. Because of the nature of demand and wind forecasting, the 1-hour ahead and the RTD wind and demand forecasts will rarely be the same. Trading periods where this difference is exceptionally large can signal that forecasting inaccuracies had a large impact on the final price for that trading period.

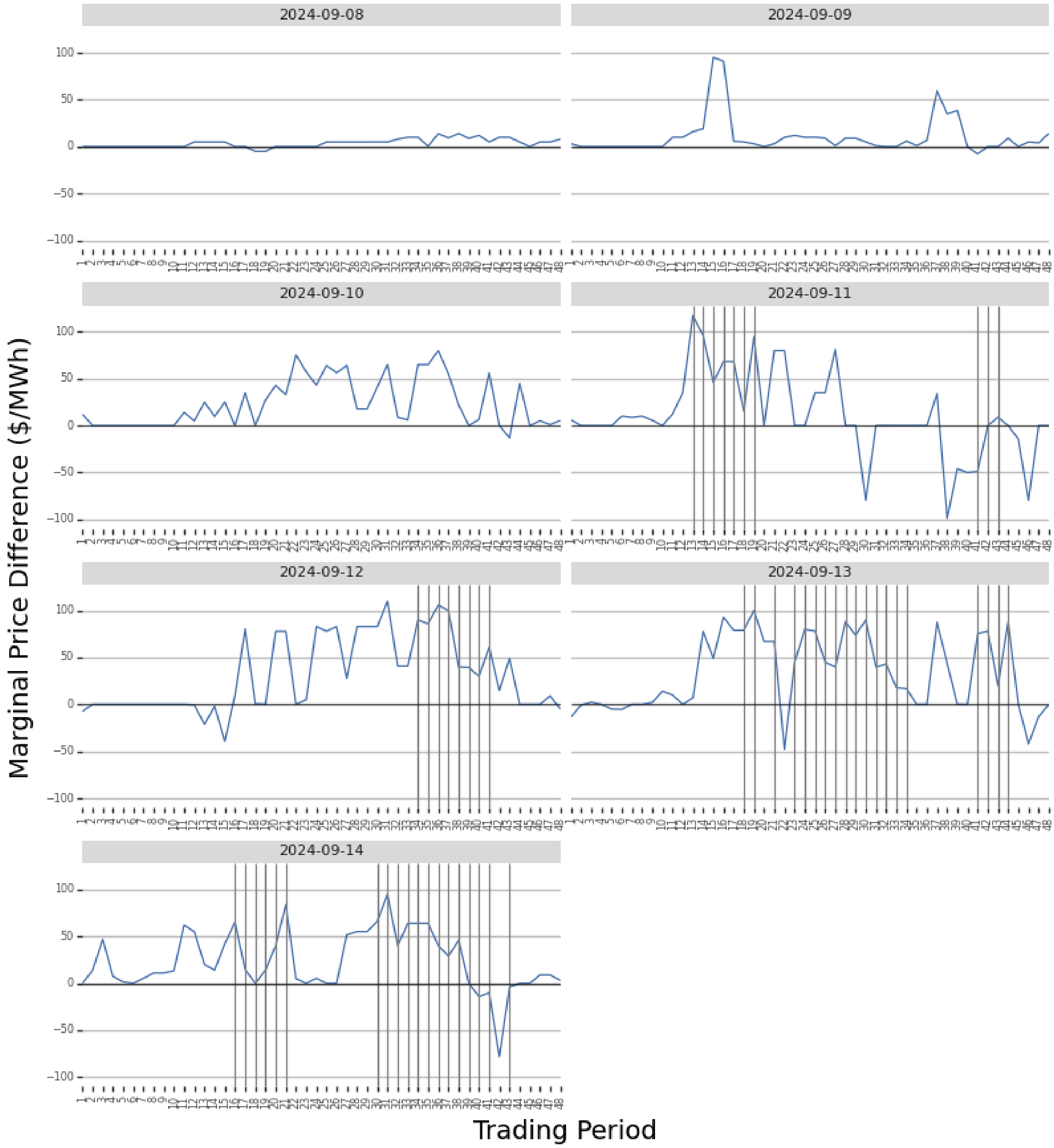
7.4. Sunday was the only day where prices were largely similar to those simulated. On Monday, there were some positive differences in the prices around peak times.

[1] Price responsive schedule short – short schedules are produced every 30 minutes and produce forecasts for the next 4 hours.

7.5. Sustained positive differences exceeding $100/MWh began occurring from Tuesday onwards, when demand was under forecast by more than 100MW and wind was often overforecast. This signals that prices may have been lower in the second half of the week if demand and wind forecasts had been more accurate.

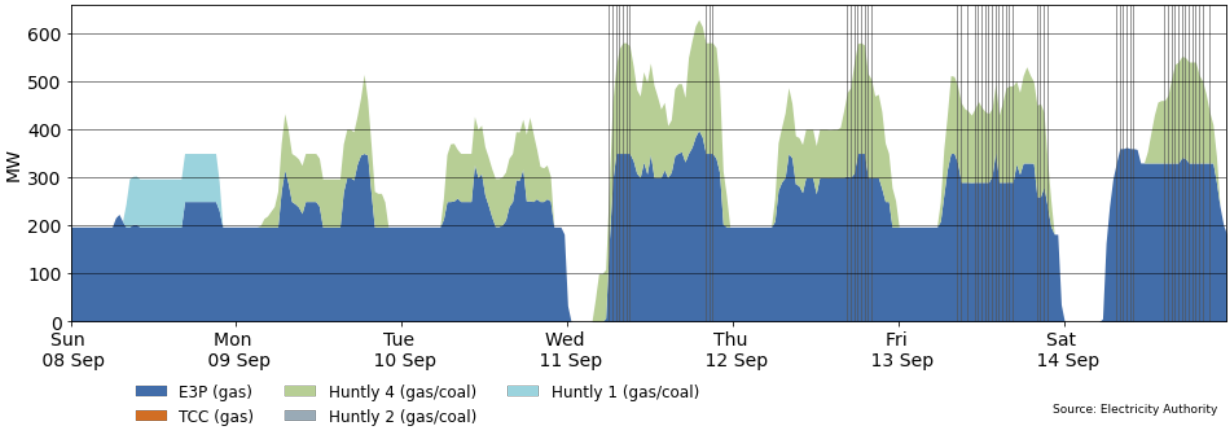
7.6. The most notable positive (marginal prices higher than simulation) difference this week was $117/MWh at 6:00am on Wednesday, when wind generation was 194MW lower than forecast.

Figure 11: Difference between national marginal RTD price and simulated RTD price, with the difference due to one-hour ahead wind and demand forecast inaccuracies, 8-14 September



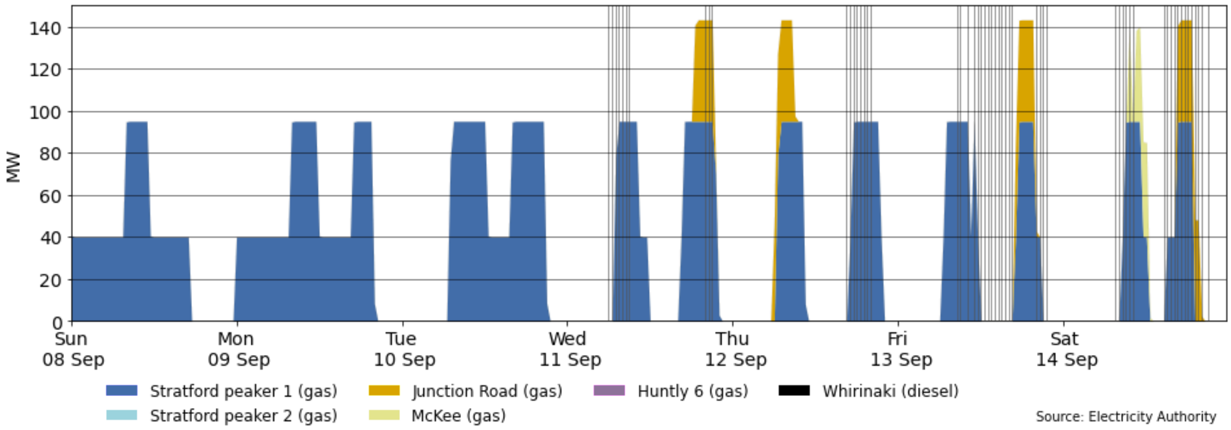
7.7. Figure 12 shows the generation of thermal baseload between 8-14 September. Huntly 1, Huntly 4 and Huntly 5 (E3P) provided baseload generation this week. E3P ran continuously for most of the week, briefly turning off early on Wednesday. Huntly 1 ran during peak and shoulder periods on Sunday, then Huntly 4 ran during peak and shoulder periods each day for the rest of the week. Both Huntly 4 and E3P ramped up to meet demand when prices were high from Wednesday onward.

Figure 12: Thermal baseload generation, 8-14 September



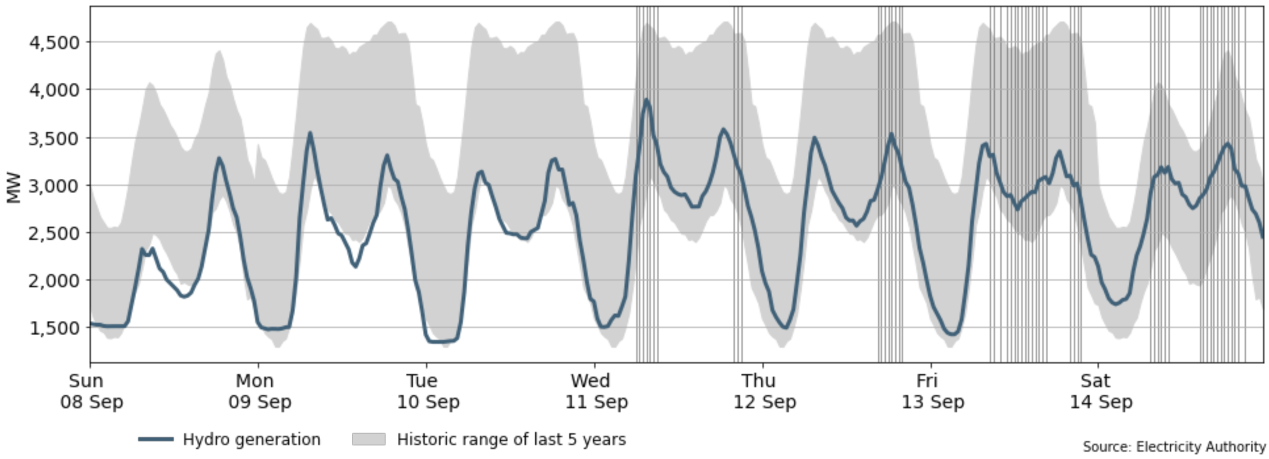
7.8. Figure 13 shows the generation of thermal peaker plants between 8-14 September. Stratford 1 ran during peak and/or shoulder periods every day this week. It was joined by Junction Road on Wednesday, Thursday, Friday and Saturday, as well as McKee on Saturday.

Figure 13: Thermal peaker generation, 8-14 September



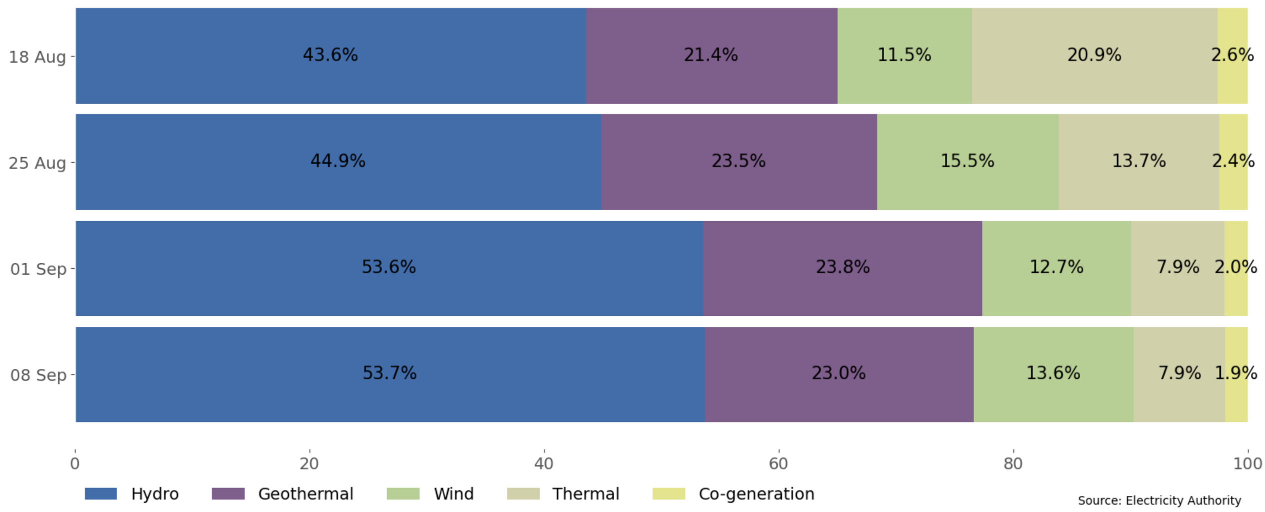
7.9. Figure 14 shows hydro generation between 8-14 September. Hydro generation remained low this week when compared to the historical range of the last five years. Hydro generation was highest on Wednesday, when wind generation was low and spot prices were the highest for the week.

Figure 14: Hydro generation, 8-14 September



7.10. As a percentage of total generation, between 8-14 September, total weekly hydro generation was 53.7%, geothermal 23.0%, wind 13.6%, thermal 7.9%, and co-generation 1.9%, as shown in Figure 15. The proportions of hydro and wind generation increased slightly this week, allowing the proportion of thermal generation to remain low.

Figure 15: Total generation by type as a percentage each week, 18 August – 14 September 2024



8. Outages

8.1. Figure 16 shows generation capacity on outage. Total capacity on outage between 8-14 September ranged between ~1,000MW and ~1,750MW. Figure 17 shows the thermal generation capacity outages.

8.2. Notable outages include:

(a) Huntly 2 is on outage from 11-14 September.

(b) Huntly 1 was on outage from 9-11 September.

(c) Huntly 4 was on outage until 8 September.

(d) Stratford 2 is on outage until 8 October. This outage has been extended and was originally scheduled to end on 27 September.

(e) Stratford 1 is on outage from 14-16 September.

Figure 16: Total MW loss from generation outages, 8-14 September

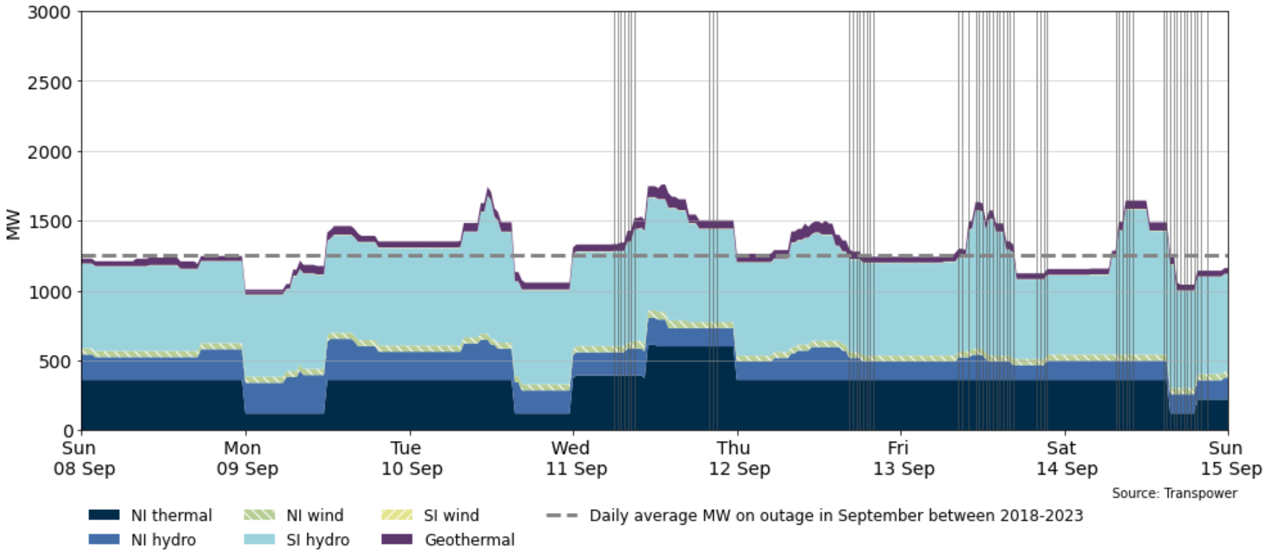
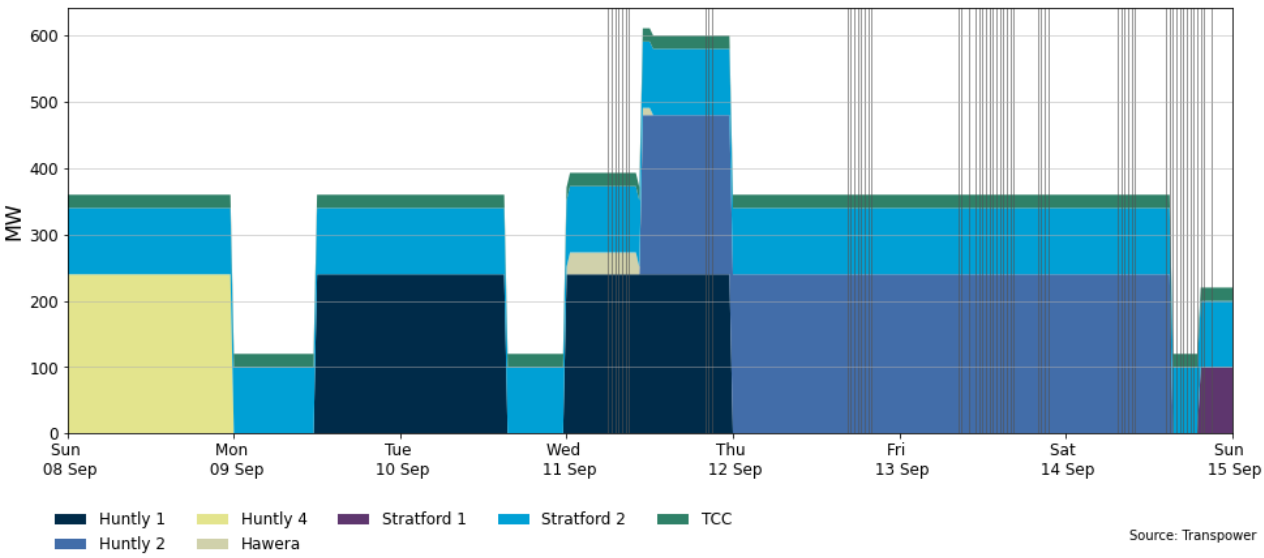


Figure 17: Total MW loss from thermal outages, 8-14 September

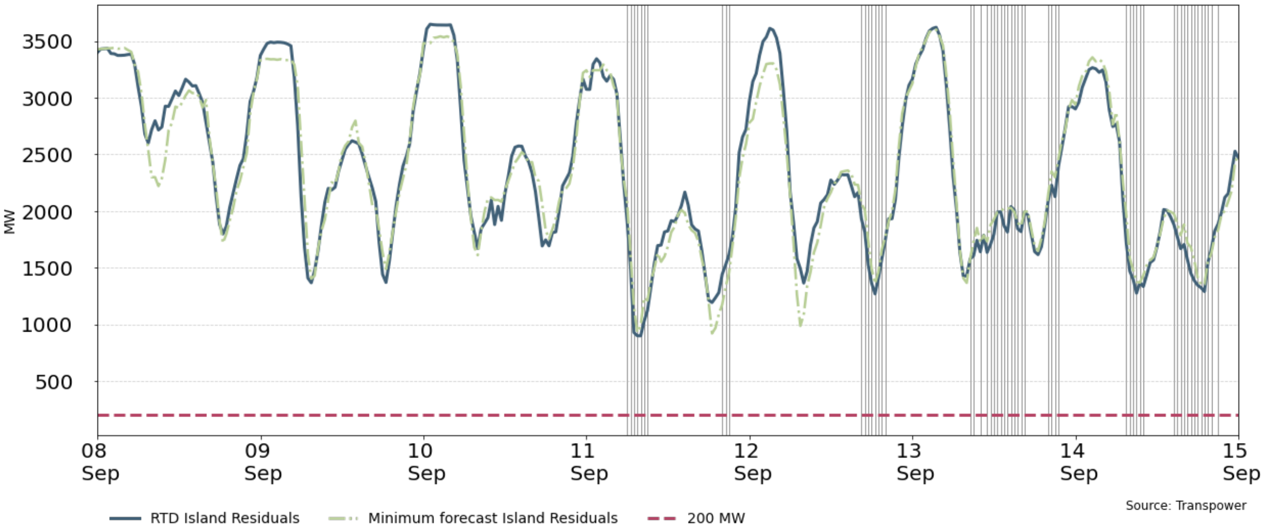


9. Generation balance residuals

9.1. Figure 18 shows the national generation balance residuals between 8-14 September. A residual is the difference between total energy supply and total energy demand for each trading period. The red dashed line represents the 200MW residual mark which is the threshold at which Transpower issues a customer advice notice (CAN) for a low residual situation. The green dashed line represents the forecast residuals and the blue line represents the real-time dispatch (RTD) residuals.

9.2. Generation balances were healthy this week. The minimum North Island residual was 454MW at 8:00am on Wednesday.

Figure 18: National generation balance residuals, 8-14 September



10. Storage/fuel supply

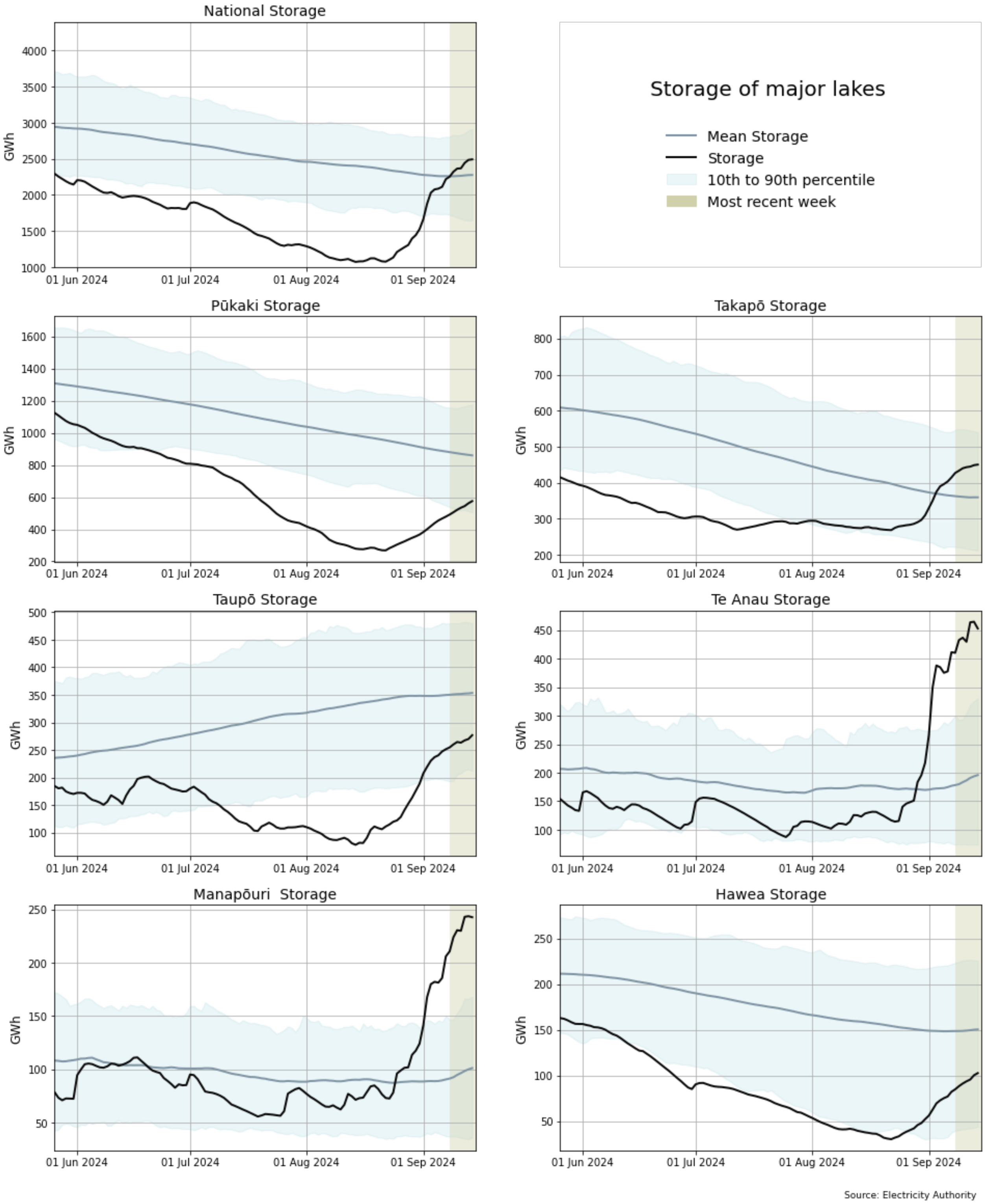
10.1. Figure 19 shows the total controlled national hydro storage as well as the storage of major catchment lakes including their historical mean and 10th to 90th percentiles.

10.2. National controlled storage has increased this week. As of 14 September, storage was 60% nominally full and ~103% of the historical average for this time of the year.

10.3. Storage increased at all major lakes this week. Takapō remains above its historic mean. Taupō and Hawea are above their 10th percentiles and continue to increase toward their historic means. Pūkaki is now above its 10th percentile for the first time since mid-June.

10.4. Heavy rainfall in the south-west has seen both Te Anau and Manapōuri go above their historic 90th percentiles and high operating ranges, with spilling still occurring in the Upper and Lower Waiau catchment.

Figure 19: Hydro storage



11. Prices versus estimated costs

11.1. In a competitive market, prices should be close to (but not necessarily at) the short-run marginal cost (SRMC) of the marginal generator (where SRMC includes opportunity cost).

11.2. The SRMC (excluding opportunity cost of storage) for thermal fuels is estimated using gas and coal prices, and the average heat rates for each thermal unit. Note that the SRMC calculations include the carbon price, an estimate of operational and maintenance costs, and transport for coal.

11.3. Figure 20 shows an estimate of thermal SRMCs as a monthly average up to 1 September 2024. The SRMC for gas has decreased significantly from the previous month, while the coal SRMC and diesel SRMC have increased slightly. The drop in gas SRMCs is a result of Methanex temporarily closing their Motunui plant to resell gas to thermal generators, as well as less thermal generation being dispatched due to increased hydro storage.

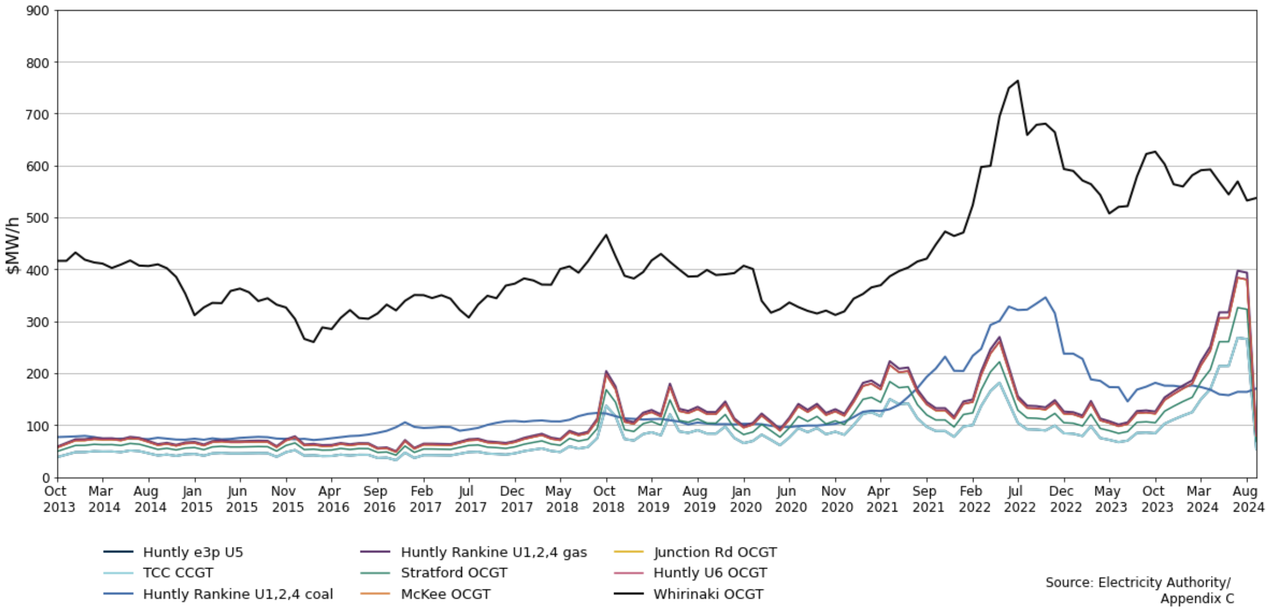
11.4. The latest SRMC of coal-fueled Rankine generation is ~$171/MWh. The cost of running the Rankines on gas is now less expensive at ~$82/MWh.

11.5. The SRMC of gas fuelled thermal plants is currently between ~$55/MWh and ~$82/MWh.

11.6. The SRMC of Whirinaki is ~$537/MWh.

11.7. More information on how the SRMC of thermal plants is calculated can be found in Appendix C.

Figure 20: Estimated monthly SRMC for thermal fuels

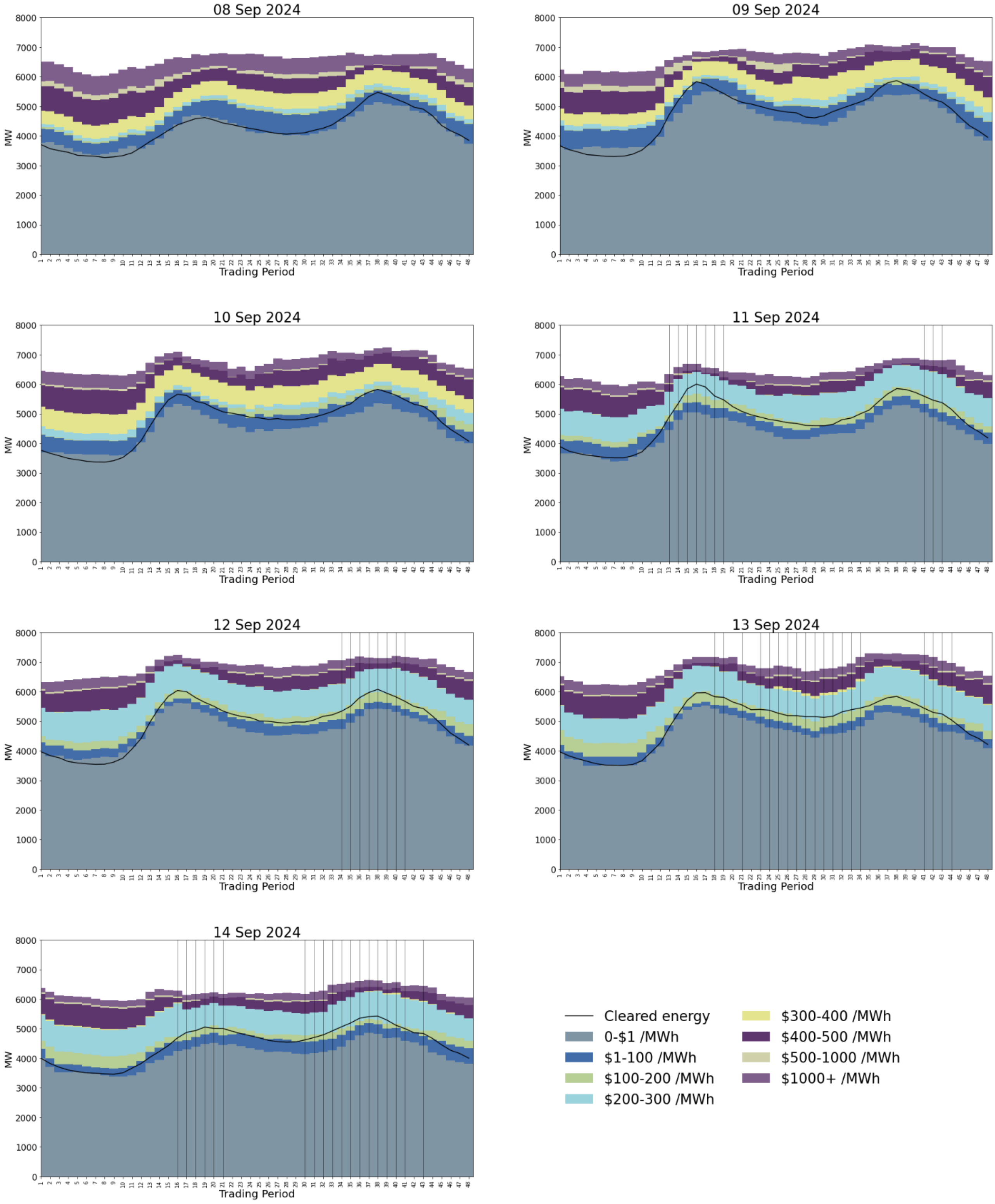


12. Offer behaviour

12.1. Figure 21 shows this week's national daily offer stacks. The black line shows cleared energy, indicating the range of the average final price.

12.2. From Sunday to Tuesday, most offers cleared in the $0-$100/MWh region. From Wednesday onwards the amount of offers in the $300-$400/MWh and $1-$100/MWh bands decreased, while the amount of offers in the $200-$300/MWh band increased. These offer changes are being further analysed by the market monitoring team.

Figure 21: Daily offer stacks



Source: Electricity Authority

13. Ongoing work in trading conduct

13.1. Prices generally appeared to be consistent with supply and demand conditions this week, however, some Generators offer behaviour is being analysed further to ensure compliance with the trading conduct rule.

13.2. Further analysis is being done on the trading periods in Table 1 as indicated.

Table 1: Trading periods identified for further analysis

Date	Trading period	Status	Participant	Location	Enquiry topic
14/06/2023-15/06/2023	15-17/ 15-19	Passed to Compliance for advice	Genesis	Multiple	High energy prices associated with high energy offers
22/09/2023-30/09/2023	Several	Passed to Compliance for advice	Contact	Multiple	High hydro offers
1/07/2024-23/08/2024	Several	These trading periods are now part of a s16 review	N/A	N/A	High energy prices
26/08/2024-26/08/2024	Several	Further analysis	Manawa	Tararua wind farms	Wind forecasting
27/08/2024-02/09/2024	Several	Further analysis	Genesis	Rangipo and Waikaremoana	Hydro offers
07/09/2024	35-42	Further analysis	Meridian	Multiple	Wind forecasting
11/09/2024-14/09/2024	Several	Further analysis	Contact	Multiple	Hydro and thermal offers
8/09/2024-14/09/2024	Several	Further analysis	Meridian	Waikati	Hydro offers