

# Spot Market Plan

Active market price management

Being on Spot Market means your business having a power supply contract linked to spot prices in the wholesale electricity market. Your consumption is charged at electricity spot market rates plus an administration charge.

## WHO'S IT FOR?

For those businesses that actively manage and respond to price signals, a power supply contract linked to spot prices in the wholesale electricity market can be an attractive option. Your business could potentially save money relative to fixed price alternatives, and/or gain a financial reward during low prices.

Being on the Spot Market can however be very volatile and therefore carry significant financial risk. Prices will sometimes 'spike' to very high levels with little or no warning, or rise to high levels for a sustained period such as during a drought. But there can be very low prices and savings for those who can respond to the price signals and avoid the high spikes.

Being on the Spot Market will require active management of your energy usage.

## HOW IT WORKS\*

The wholesale Spot Market works as an auction where generators make offers to produce electricity for half-hour time blocks (called trading periods).

The system operator (Transpower) ranks these offers and computes the lowest cost mix of generation from different sources that will satisfy overall demand for each half-hour.

The highest-priced generator actually required for each half-hour is the key determinant of prices for a trading period (referred to as marginal pricing).

Spot prices vary for a number of reasons including:

- underlying demand and supply conditions change over time – spot prices are generally higher in winter when demand increases, and lower in summer, or lower at night time and lower at night and higher during the day when power usage increases

- unexpected movements in demand or supply – spot prices can be much higher during droughts, or relatively low during wet periods when the hydro lakes are full
- locational differences that reflect the effect of electrical transmission losses and constraints on the grid.

Spot prices can, on occasion, be many times higher than the offer price for the highest cost generator that was required to run in a trading period. This can arise for a variety of reasons, but generally reflects a situation where part or all of the supply system is getting close to its physical limit.

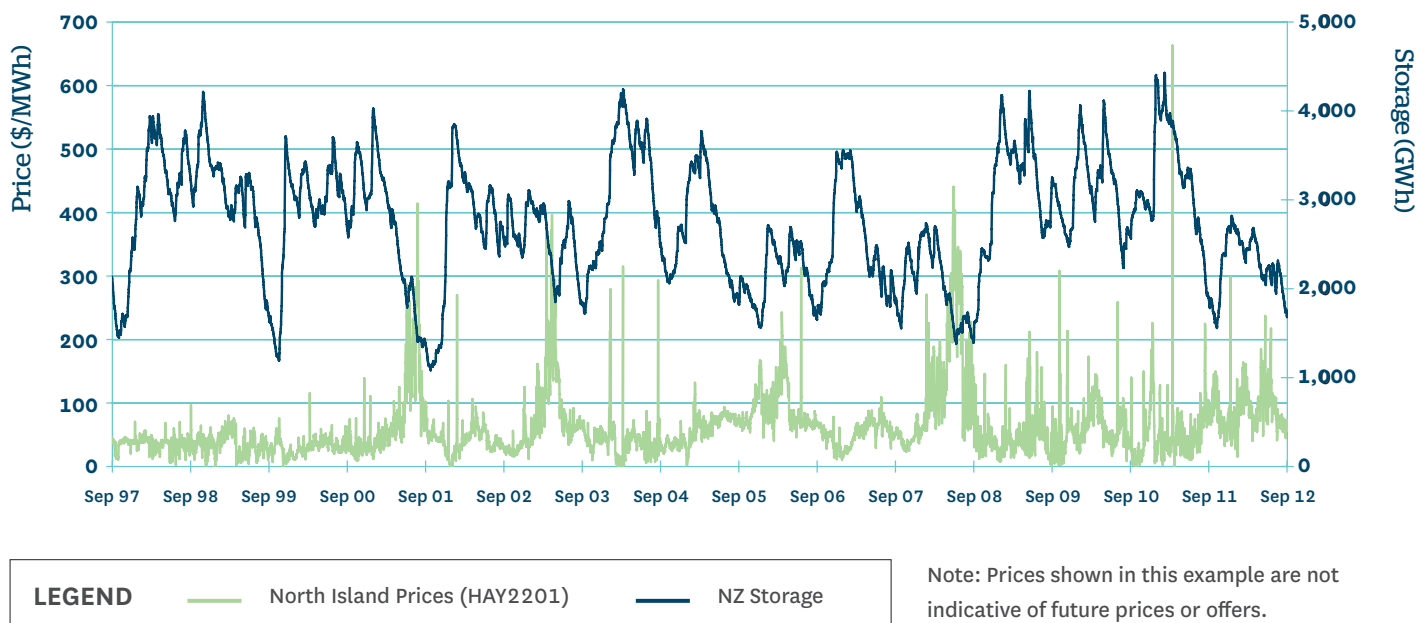
\* This information has been reprised from Electricity Price Management – a high level guide for consumers published by the Electricity Authority.



# Spot Market Plan

Active market price management

*Example of Spot Market Plan in action (Source: NZX Energy hydrological summary 6 Sept. 2012)*



It is important that any electricity purchaser that is exposed to spot price movements is fully aware of the risks associated with this. To help to ensure that participants in the wholesale electricity market and their customers are appropriately taking account of the risks of spot market exposure, the Electricity Authority has developed a spot price risk disclosure regime. We recommend you familiarise yourself with this regime and, should you wish to do so, apply the stress tests contained in the regime to your own circumstances. Further details on the regime can be found at <http://www.ea.govt.nz/industry/security-of-supply/stress-testing-regime>

For more information on the electricity spot market, including current and historic prices, visit [www.electricityinfo.co.nz](http://www.electricityinfo.co.nz)

For general information on the NZ Electricity Market visit [www.ea.govt.nz](http://www.ea.govt.nz)

## FIND OUT MORE

For more information about how Meridian can help your business, contact your Account Manager, email [business@meridianenergy.co.nz](mailto:business@meridianenergy.co.nz) or call us on **0800 496 777**, Monday to Friday, between 7.30am and 5.30pm excluding public holidays. Or visit our website [meridian.co.nz](http://meridian.co.nz)