

CIRCULAR



10th Level - Stock Exchange
Centre
191 Queen Street Auckland 1
Telephone +64-9-309 8308
Fax +64-9-309 8817

To: All NZFOE Dealers
No: 6/98

Revision of Electricity Prices

The Market Surveillance Committee of the New Zealand Electricity Market recently ordered the recalculation of the final prices for electricity for the month of February 1998. This was as a result of an error in the calculation of the original price because of the omission of some relevant offer data. The Market Surveillance Committee is empowered to order a recalculation of the prices only in the event that it considers that a participant in the Spot Market for electricity has been "materially financially disadvantaged".

The Mandatory Settlement Price for the New Zealand Electricity - North Island Futures Contract is based upon the final prices determined from the New Zealand Electricity Market, therefore the recalculation of final prices was of relevance to the February 1998 NZFOE electricity futures contract, as well as other derivative instruments. NZFOE is aware that OTC electricity hedge contracts have been resettled in accordance with the recalculated final price.

In accordance with NZFOE Rule 23, which governs Undesirable Situations, a Special Committee was appointed to investigate and report to the NZFOE Board on this matter.

The NZFOE Board has considered the report of the Special Committee and has directed that the settlement of the February 1998 New Zealand Electricity Futures Contract - North Island be adjusted in accordance with the recalculated final price for the February electricity prices advised to NZFOE by EMCO. This means that the original mandatory settlement price of \$40.50 is to be adjusted to \$39.10.

SFECH will effect this adjustment in clearing member accounts on Friday 8 May and will advise those members involved of the amount and method of adjustment prior to that date.

In determining to take this corrective action the NZFOE Board took into account the particular circumstances of the situation. Therefore, this decision should not be considered to be an indication that the NZFOE Board would direct that such action be taken in respect of any similar situation should it arise in respect of the NZFOE electricity futures contract or any other contract.

NZFOE will be consulting with various parties as a result of this situation with a view to determining what, if any, changes should be made to NZFOE Rules and Contract Specifications.

Greg Boland
General Manager - NZ Markets

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