

3 September 2007

Jenny Walton Electricity Commission By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on Demand-side bidding and forecasting proposal

- 1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") consultation paper, *Demand-side bidding and forecasting*, published 5 July 2007. Answers to the nine questions in the consultation paper are set out in the appendix to this letter.
- 2. MEUG support replacing the existing Price Dispatch Schedule (PDS) and Schedule of Dispatch Prices and Quantities (SDPQ) with the Non-response Schedule (NRS) and Price Responsive Schedule (PRS) as quickly as possible after the Market System Project (MSP) is functioning. MEUG have a number of suggested changes to the proposal to improve forecast price accuracy at the same time as minimising implementation and compliance costs. Those suggested changes are listed in the answer to question 1 in the appendix.
- 3. MEUG also suggest the Commission work closely with end users', retailers and distributors to design appropriate COMIT pages for demand bids and publication of market information to assist parties in making demand side response decisions. For example other important drivers of demand response such as regional coincident peak demand (re transmission pricing) could be published on the same page.

Yours sincerely

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Ralph Matthes Executive Director

Appendix

	EC question	MEUG comment
Q1	Do you agree with the introduction of the NRS and PRS? Please provide reasons.	Yes, agree with introduction of NRS and PRS subject to:
		and "non-stochastic" GXP (for details refer to answer to Q6 below).
		 Non-stochastic GXP being defined in terms of a defined variance between actual spot prices and forecast prices rather than the unpredictability measure based on variances in forecast and actual demand proposed in the consultation paper (for details refer to answer to Q4 below).
		3. Bids by parties at non-stochastic GXP being on a "best endeavours" basis. This is important because the experience of MEUG members in terms of non- compliance for Interruptible Load (IL) bids has resulted in significant over-head costs. Non- compliance with IL can have effects on the System Operator Principal Performance Obligations (PPO) and therefore a compliance regime to ensure IL is available as bid is needed. However the rules as drafted could be read to assume the same level of compliance will also apply to energy offers even though they do not have any impact on PPO. The rules need to reflect that failing to achieve IL bids is different from failing to achieve energy bids.
		 The rules should require significant changes in bids at stochastic GXP to be bid, ie any expected variation greater than the MEUG suggested minima for non-stochastic GXP or 25MW or 35% (refer next point).
		 The EC should consider changing the range within which expected demand can vary compared to that bid from the proposed minimum of either 20MW or 30% to the minimum of either 25MW or 35% ((for details refer to answer to Q9 below).
Q2	If you are a retailer, would you submit price-responsive bids (difference bids at a conforming GXP) under the Proposal? Please provide reasons.	This is a question for retailers to answer.
Q3	Do you agree that the determination for conforming/non-conforming should be made at the GXP level? Please provide reasons.	Agree GXP level determination more appropriate.
Q4	Do you agree with the proposed methodology for determining GXPs as conforming or non-conforming? Please provide reasons.	No. The unpredictability measure is based on variances of expected demand against actual demand. As the purpose of the proposal is to improve forecasts of prices, the better measure is therefore the variance (or non-correlation) between forecast spot prices and actual spot prices. Norske Skog tabled an example of such a correlation in their submission to the EC on DSBF in June 2005. Choosing a cut-off R ² for the correlation between forecast and actual spot prices using the methodology that Norske Skog used would be a better approach to decide which GXP should be considered stochastic or non-stochastic in terms on their relative impact on forecast spot prices.

Q5	What is your view on the proposed average demand threshold and unpredictability measure threshold graduated demand? Please provide reasons.	See answer to Q4 above.
Q6	Do you agree that the names 'conforming' and 'non-conforming' are appropriate? Please provide reasons. If you don't agree, please suggest alternative names.	No because "non-conforming" in the context of rules and regulations infers such parties are irresponsible or acting outside of the rules and regulations.
		MEUG prefer the terms "stochastic" and "non-stochastic" as used throughout this submission. Another alternative would be to use the terms "predictable" and "non- predictable."
Q7	Do you think that there should be a threshold for notifying demand changes? Please provide reasons. If you answer yes, please suggest a threshold value.	Yes, stochastic GXP should be required to make a bid if expected demand is outside the MEUG suggested new minima of 25 MW or 35% (refer answer to Q9 below for the suggested new minima). It would be inequitable that non-stochastic GXP would have to report expected changes in demand outside of these minima but stochastic GXP do not.
		Note that for most of the time stochastic GXP will not have to notify bid changes provided their expected demand matches historic patterns. But when the stochastic GXP makes a change in how demand is managed, the historic based forecasting will not be a useful guide for forecasting prices and therefore they should advise the market of the change.
Q8	Do you agree that there should be no requirement for bids for hot water ripple control? Please provide reasons.	No requirement unless there is a material change compared to most recent behaviour. Refer the answer to Q7 above.
Q9	Do you agree with the proposed approach to bidding accuracy requirement issues? Please provide reasons	The shift from a minimum of 20MW or 10% to a minimum of 20MW or 30% is a welcome change in the right direction but doesn't go far enough. NZ Steel in their submission have argued the minima should be 25 MW and 35% and provide some examples of how that would work in their case. MEUG support the NZ Steel proposal.
Q10	Do you agree that purchasers should be responsible for ensuring their price- responsive bids are a reasonable estimate of their ability to change demand? Please provide reasons.	This question relates to the current requirement on purchasers to take into account their own IL bids when making energy demand bids. MEUG agree this provision should be retained.
Q11	Do you agree that price-responsive bids	Agree.
	should not be dispatched by the system operator? Please provide reasons.	A great deal more investigation would need to be undertaken on this before it could be implemented. In the future some purchasers may wish to use this option and that would be reasonable provided they pay the incremental cost to facilitate that option while allowing other purchasers to retain the status quo.
Q12	Do you agree that the proposal to require the system operator, from time to time, to report to the Board on the accuracy of its demand forecasts at conforming GXPs provides sufficient incentive for the system operator to improve its demand forecasts over time? Please provide reasons.	Rather than leave it open for the EC to report from time to time it would be better to standardise the reporting to say every quarter. Having a standardised review period will allow the SO to predict when resources are needed, to put efficient processes in place and allows predictability for market participants to monitor and check the reviews.
Q13	Are there other potential impacts on generators that have not been identified here? Please provide reasons.	This is a question for retailers to answer.

Q14	Do you agree with the cost benefit assessment? Please provide reasons.	The new NRS and PRS are likely to have benefits exceeding costs for stochastic GXP.
		The additional costs required to improve D forecasts at non-stochastic GXP <u>may</u> also assist national price forecasting accuracy – but the beneficiaries will be all purchasers and the costs will fall only on those purchasers at non-conforming GXP. Note that MEUG emphasis the word "may" in terms of possible improvements because under normal conditions (eg prices well below 10 c/kWh we expect very few (and possibly only one) non-stochastic GXP providing a PRS that will be different from the NRS bids. The proposal by the EC to assist purchasers at non-conforming GXP to improve their demand forecasting techniques is a useful way to overcome the mismatch between beneficiaries and parties that will incur costs.
Q15	Do you agree with the assessment against the Commission's objectives and outcomes? Please provide reasons.	No comment.
Q16	Do you agree that a post-implementation review would be important? Please provide reasons.	Yes.
Q17	Do you have any improvements to suggest to the proposed post-implementation review?	Reliance on Californian demand elasticity estimates in the cost benefit analysis highlights the lack of NZ specific data. MEUG suggest the EC and EECA should be working on estimating demand elasticity for New Zealand. A baseline should be established before any rules are changed and then any change in elasticity observed sometime after the rule has been in place.