



MAJOR ELECTRICITY USERS' GROUP

6 August 2013

Dr John Rampton
General Manager Market Design
Electricity Authority

By email to submissions@ea.govt.nz

Dear John

Consultation Paper – Within-island basis risk: proposed approach

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper¹ "Within-island basis risk: proposed approach" dated 25th June 2013. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree that the Authority has characterised the problem of WIBR correctly? If not, how could the problem be better described?	The policy issue is to decide the best use of loss and constraint excesses (LCE) to improve efficiency in the market for managing WIBR. We assume: 1. The debate over either full nodal pricing or zonal pricing has been settled in favour of the former; and 2. The debate on who has decisions rights for use of LCE is also settled in favour of the Authority.
2. Do you agree that these four options are an appropriate shortlist? If not, are there other options that should be considered? <input type="checkbox"/>	Agree.

¹ <http://www.ea.govt.nz/dmsdocument/15230> found at <http://www.ea.govt.nz/our-work/consultations/priority-projects/within-island-basis-risk/>

Question	MEUG response
3. Do you agree that the four options in Table 2 need not be considered at this stage? If not, which of them should be considered and why and what other options should be considered and why?	Agree.
4. Do you agree that the two-node hybrid option has been characterised correctly? If not, how could it be better described?	Assumptions for this short listed option are reasonable.
5. Do you agree that the three-node FTR option has been characterised correctly? If not, how could it be better described?	Assumptions for this short listed option are reasonable.
6. Do you agree that the three-node hybrid option has been characterised correctly? If not, how could it be better described?	Assumptions for this short listed option are reasonable.
7. Do you agree that the multi-node FTR option has been characterised correctly? If not, how could it be better described?	Assumptions for this short listed option are reasonable.
8. Do you agree that all four high-level options are feasible? If not, why not	Agree all options meet the feasibility criteria in paragraph 4.2.1.
9. Do you agree that all four options would avoid distortion to price signals? If not, why not?	<p>Accept this is still a controversial issue but consider possible price distortions will be sufficiently immaterial to be unable to negate one option over another.</p> <p>MEUG notes that if price distortions are observed the ability to exit an FTR product form the market is reasonably short in order to avoid future new price distortions including exercise of market power.</p>
10. Do you agree that the criteria in Table 7 are reasonable and roughly equal in priority? If not, why not? Should other criteria relating to competition, reliability or efficiency be considered?	Table 7 is a useful initial guide for selecting the top two options for more detailed analysis compared to the status quo counterfactual. We are not sure if the bottom ranked options would necessarily have a positive NPV relative to the status quo.
11. Do you agree that the multi-point FTR would promote the Authority's statutory objective most effectively? If not, why not, and which option do you think would most support the statutory objective?	Table 7 helps in a rough ranking of the options but to choose between the top two options and the status quo counterfactual a cost-benefit-analysis should be used.

Question	MEUG response
12. Do you agree that the multi-point FTR would produce a greater net benefit than any of the other options? If not, why not, and which option do you consider would produce the greatest net benefit?	<p>Intuitively we support the view that the multi-point FTR option is <u>likely</u> to maximise the long-term benefit of consumers.</p> <p>MEUG recommends the Authority estimate quantified benefits for each option and compare against the estimated costs in the consultation paper to test this result. We don't believe reliance on a breakeven analysis alone is best regulatory practice when we have no measures to test if the breakeven efficiency gains are reasonable.</p>
13. If the decision is to proceed with the multi-point FTR, which FTR points do you consider should be added at this point, and why?	<p>The additional FTR points should be decided by potential FTR participants for those new products through a consultation process by the FTR Manager's review of the FTR Allocation Plan.</p> <p>The analysis leading to the ranking of likely highest value FTR points in figure 3 on page 50 is a good starting point for the FTR Manager's review.</p>
14. Do you agree that, if the decision is to proceed with the multi-point FTR, the new FTR points should generally be nodes rather than hubs? If not, why not?	Generally yes but final decision to be informed by FTR Manager's review.
15. Do you agree that, if the decision is to proceed with the multi-point FTR, the new FTRs should be point-to-point rather than radial? If not, why not?	Agree with the Authority that ² "for moderate numbers of FTR points (e.g. less than ten), the advantages of point-to-point FTRs would probably outweigh the disadvantages."
16. Do you agree that, if the decision is to proceed with the multi-point FTR, the new FTR products should include a full selection of options and obligations? If not, why not?	<p>Agree.</p> <p>The only potential downside to having a full suite of obligations and options is possibly higher cost for monitoring by the Authority to identify exercise of market power. However if only a few new nodes are involved and monitoring is automated to identify outlier behaviour then the cost is likely to be manageable. We do not see the added costs to participants to trade as an issue because parties will only invest in trading those new products if they perceive it to be beneficial to them, ie in aggregate over time net benefits should exceed participation costs.</p>

² Consultation paper, paragraph 5.4.9, p54

Question	MEUG response
17. Do you agree that, if the decision is to proceed with the multi-point FTR, the Authority should proceed according to the roadmap set out in Figure 7? If not, how should the Authority proceed?	MEUG agrees with the road map in figure 7. It will be important future periodic reviews consider the impact of any changes since the last change in the regime, including for example recent transmission investment, actions arising from consideration of pivotal supplier situations, constraint softening, review of TPM and improved modelling of losses as listed on page 17.
18. Do you agree that, if the decision is to proceed with the multi-point FTR, the Authority should develop objective criteria for adding and removing FTR nodes in future years? What should be taken into account in developing these criteria?	Agree.

3. We look forward to considering the submissions of other parties on this proposal and the response of the Authority to submissions.

Yours sincerely



Ralph Matthes
Executive Director