

MDAG project: Price discovery with 100% renewables - initial MEUG comments, 3 September 2021

Refer to slide 7, workplan for problem definition, in MDAG working draft of 9th August 2021.

1. For Issue/Task: “Spot price formation”, subject to one caveat, MEUG agrees with developing and testing two competing views, i.e., View 1: Prices mainly at zero except during scarcity and View 2: Price will continue to reflect opportunity cost of resources available. The caveat is MDAG consider the issue of market power. That issue was mentioned, for example, by Energy Link, Market Reform (page 27 citing Iceland example), and Sapere considered it in the context of market confidence etc (see point 2 below).
2. For issue/Task: Contracts market, “Will exchange traded and over the counter (OTC) financial instruments be sufficient to deliver resource adequacy and the necessary investment in renewable solutions? Case for integrated wholesale and contract market design?”, MEUG will be interested in MDAG work that considers the issues in Sapere’s slides 24 to 29 that starts with slide 24 heading “Contracts market was never comprehensively designed.” We endorse Sapere’s observations such as (slide 27) “General imbalance between trading resources of generator vs purchasers –size, experience, engineering, information, capital” and “Difficult for small retailers, and politicians, to understand price formation, which reduces trust in market”.
3. For issue/Task: Demand-side flexibility, “Barriers to demand-side flexibility playing its full role in price discovery and system security?”. MEUG suggest MDAG consider:
 - a) The integration of wholesale prices (for both View 1 and 2) with transmission and distribution charges. It is the total delivered price that end consumers with demand-side flexibility will base operating and investment decisions on. Sapere noted this in the last bullet point on slide 22 “The market relies critically on how the transmission network is operated, priced and how scarce capacity is allocated” when listing challenges in policy design by Prof. Paul Joskow.
 - b) Related to the above is the need to treat all existing and yet to be developed technologies that deliver demand-side flexible services in a technology neutral way in terms of the Code governing market participants. Consumers can have demand side flexibility that could compete with, for example batteries, but the risk is that potential competition for providing demand-side flexibility at the margin will be distorted if batteries or other new technologies do not have to meet all the costs conventional flexible demand must meet (e.g., share of TPM residual charges).
4. MEUG suggest in the problem definition phase, potential transition issues should be flagged for each of the Issues/Tasks. MEUG suggests the reference in the scope and key issues of the terms of reference for the project, “While the transition path from the current arrangements to 100% renewables is not directly within the scope of the project, it is likely to come into view as a question during the process of the project and may be taken into account in developing MDAG’s recommendations”, is critical rather than a ‘might-be-considered’ aspect.