

30 April 2019

Dr Justin Wood  
Design Lead RTP  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Justin

### Consultation Paper – Remaining elements of real-time pricing

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper "Remaining elements of real-time pricing" (RTP) published 19<sup>th</sup> March 2019.<sup>1</sup> MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
2. MEUG supports dispatch-lite being implemented at the same time as the rest of RTP. The design philosophy of using a risk-violation curve rather than static steps is an improvement to estimate boundary costs for reserve shortfalls. However, we do not have a view on the technical details of how those curves should be estimated. MEUG supports the the proposed methodology to calculate the scarcity pricing values and periodic revision of those.
3. We have a concern that the existing Dispatchable Demand (DD) participant will be unable to comply with the shorter time frame between receipt of dispatch instructions to decrease demand under the proposed post-RTP DD regime where they are dispatched using the dispatch schedule rather than the Non-Response Schedule Short (NRSS). In our submission of 10<sup>th</sup> October 2017 in response to question 13, we asked if inclusion of ramp rates for DD could be considered. It is disappointing that suggestion has not been considered in this consultation. It seems anomalous that once RTP is implemented generators will continue to have the benefit of ramp rates but DD participants, in all other respects with the same obligations as generators, will not.
4. Responses to questions in the consultation paper follow:

| Question  | MEUG comment |
|---|--------------|
| 1. Do you agree with our proposed criteria for distributed generation to be eligible for dispatch-lite? | Agree.       |

<sup>1</sup> <https://www.ea.govt.nz/dmsdocument/22389-real-time-pricing-proposal-consultation-paper>

| Question   | MEUG comment   |
|--|--|
| 2. Do you agree with our proposed criteria for purchasers to be eligible for dispatch-lite?  | Agree.   |
| 3. Do you agree participants providing SCADA telemetry should be eligible for dispatch-lite?   | Agree. To be clear the proposal is that SCADA is not needed for dispatch-lite unless required by the System Operator.  |
| 4. Do you agree combining an acknowledgement response via the dispatch system with an obligation to immediately rebid or reoffer is the best design option?    | Having clarity of a dispatch-lite participant's intentions is reasonable with the additional compliance responsibility falling on the participant. As the paper notes those participants have an incentive to automate such functionality in required changes for the DSE project. |
| 5. Do you agree gate closure for all dispatch-lite participants should be set at 30 minutes (one trading period), the same as for current embedded generators? | Agree.<br>MEUG notes the EA should consider in a review of the gate closure regime (separate from the RTP project) if the current 1-hour for full dispatchable demand and full offered generation should change to 30 minutes.   |
| 6. Do you agree with the proposed compliance arrangements for dispatch-lite? If not, please explain your reasoning.  | Agree.   |
| 7. Do you agree with the proposed method to allow dispatch-lite participants to withdraw from dispatch?  | Agree.   |
| 8. Do you agree we should implement dispatch-lite as part of RTP, should we decide to proceed?   | Agree there is likely to be a net benefit implementing dispatch-lite at the same time as the rest of RTP rather than delaying.   |
| 9. Do you agree reserve pricing under RTP should place a higher cost on scarcity of FIR than scarcity of SIR?  | -  |
| 10. Do you consider the risk-violation curve approach would increase incentives or opportunities for gaming? Please explain your reasoning.                    | -  |
| 11. Do you agree we should implement the risk-violation curve we have described to handle reserve shortfalls under RTP? If not, please explain your reasoning. | -  |
| 12. Which configuration of the risk-violation curve do you consider we should adopt? Please explain your reasoning.  | -  |

| Question   | MEUG comment  |
|--|---|
| 13. Should we set a total reserve shortfall quantity limit if we implement the risk-violation curve under RTP? Please explain your reasoning.  | -   |
| 14. Do you agree a new type of formal notice to cover periods of reserve shortfall under RTP is not warranted? If not, please explain your reasoning.  | -   |
| 15. Do you agree with the proposed methodology to calculate the scarcity pricing values? If not, please explain your reasoning.  | Agree.  |
| 16. Do you agree the Authority should have an obligation to review the scarcity pricing values at least once every five years?   | Agree. This periodic review requirement is consistent with our submissions in 2017 to include such. <sup>2</sup>  |
| 17. Do you agree with the objectives of the proposed amendment?  | Agree.  |
| 18. Do you agree with the objective of the proposed Code amendment?  | Agree.  |
| 19. Do you agree with the cost benefit assessment? In particular: – what (if any) other sources of benefit should be included in the assessment? – what is your view on key assumptions, such as the level of improved demand response enabled by RTP? – what (if any) other sources of costs should be included in the assessment? Please explain your reasoning. | <p>MEUG remains satisfied implementing RTP will be beneficial. The analysis in paragraph 6.21 on the breakeven industrial demand response, if that were the only benefit, being 16MW, is a useful cross check.</p> <p>In the base case the ratio of the PV demand response benefits to the PV demand response costs for commercial and industrial (C&amp;I) consumers is approximately 5:1. The ratio<sup>3</sup> for residential consumers is approximately 3:1. The cost-benefit-analysis result that the benefit relative to costs of demand response by C&amp;I consumers is likely to be greater than that in the residential sector is consistent with MEUG's expectations and supports our view the focus of early adoption of RTP should be in the C&amp;I sectors.</p> |

<sup>2</sup> Refer MEUG submission, response to question 4, 10<sup>th</sup> October 2017, <https://www.ea.govt.nz/dmsdocument/22717-major-electricity-users-group>

<sup>3</sup> PV C&I demand response benefits to costs is \$48m/\$9m = 5.3. For residential consumers the ratio is \$23m/\$8m = 2.9.

| Question  | MEUG comment   |
|---|--|
|   | <p>While MEUG is optimistic that technology coupled with the best set of code changes will realise the full potential of RTP over time, we are unsure whether the assumption in the cost-benefit-analysis that the full expected uptake will occur as soon as RTP goes live. We expect there will be many early adopters with other potential participants waiting to see if any wrinkles in the software and or code need to be fixed before committing. Such issues with the Code were observed when DD was first implemented.</p> |
| <p>20. Do you agree with our assessment of alternatives? If not, why not?</p>       | <p>Agree in relation to dispatch-lite.</p> <p>Note in paragraph 3 of the opening page of this submission we raise concern with another related aspect of the overall RTP proposal, namely the lack of post-RTP DD participants being able to use ramp rates whereas generators will have that option.</p>  |
| <p>21. Do you have any comments on the drafting of the proposed Code amendment?</p> | <p>Not at this stage. We may have comments once we see the consolidated proposal following this consultation round on the remaining 3-design elements.</p>   |

5. We look forward to early advice on the timeline for the next consultation round.

Yours sincerely



Ralph Matthes  
Executive Director