



MAJOR ELECTRICITY USERS' GROUP

16th June 2015

Laurie Counsell
Advisor Wholesale
Electricity Authority
By email to submissions@ea.govt.nz

Dear Laurie

Consultation Paper—Dispatchable demand - late bid revisions

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper¹ "Dispatchable demand – late bid revisions" dated 5th May 2015. MEUG appreciates the Authority, at the request of MEUG, providing more detail on the proposal, cost benefit analysis and source of costs in the paper.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG has seen the more detailed submission of Norske Skog Tasman (NST). MEUG agrees with the submission of NST.
4. MEUG believes Dispatchable Demand (DD), possible future enhancements to DD and the development of other demand side response initiatives enabled by new technologies will improve competition and discovery of efficient spot prices. Advancing and implementing DD has had a long and tortuous history. The discovery of a flaw whereby prices used for dispatching DD are not the same as those used for final pricing resulting in constrained on and off payments that are not directed at improved economic efficiency is both a concern in terms of the process used to test the robustness of the code amendment and the risk this will create uncertainty and deter parties capable of participating in the DD regime from doing so.
5. NST was the pioneer and so far only participant to implement DD. As an early adopter NST also bore additional start-up costs for new Code processes being implemented by service providers to the EA. Unexpectedly NST have also become entangled in the discovery of the flaw in the code. The paper in many places acknowledges there is no evidence NST deliberately made late bid revisions in order to increase constrained off payments. In fact NST ceased bidding KAW0112 within four days of commencing bidding into DD due to risks it realised would affect the market. The largest constrained off

¹ Document URL <http://www.ea.govt.nz/dmsdocument/19342> at <http://www.ea.govt.nz/development/work-programme/wholesale/operational-enhancements-to-dispatchable-demand/consultations/#c15243>

payment of \$108,369 for trading period 3 on 20th November 2014 was for nominated bids at KAW0112.

6. NST planned and implemented its operations to comply with and operate in the new DD regime conscientiously and finds itself in a difficult position whereby it wishes to ensure the regime works for both the market and NST. MEUG also wishes to make changes to overcome the flaw provided the solution does not undermine NST and other parties implementing DD in the future.
7. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree the issues identified by the Authority are worthy of attention?	Yes provided the EA take into account the submission by NST and in particular the mis-characterisation in the paper that the "main benefits to a DCLS (dispatch- capable load station) of participating in the dispatchable demand regime" are being paid constrained on and off compensation. As NST point out the main benefit to DCLSs is to avoid high spot prices.
2. Do you agree with the objectives of the proposed amendment? If not, why not?	The objective in paragraph 3.1.1 (a) is agreed but we have doubts, consistent with NST, on the validity of objectives in paragraphs 3.1.1 (b) and (c) because those relate to problems that may not exist.
3. Do you agree the benefits of the proposed amendment outweigh its costs?	<p>MEUG has concerns on the validity of the cost-benefit-analysis as follows:</p> <p>(a) Some of the stipulated problems may not actually be problems as noted in response to question 2 above.</p> <p>(b) We don't think the counterfactual is the status quo. In the absence of the code amendment proposal we think the EA would have implemented option C.</p> <p>(c) We think the estimates of the static efficiency benefits are too high for 2 reasons. First because the discount rate of 6% is too low.</p> <p>Second the cost-benefit-analysis assumes future demand response will be more elastic than current responses. There is an argument that increasing elasticity will only occur if the DD regime and other market design features enable latent demand response to be discovered. There is a chicken and egg situation here whereby a fix-it-patch type amendment to DD, such as the proposal, rather than a comprehensive solution such as option B, will fail to realise the demand elasticity forecast in the paper. But if option B were implemented then DD uptake would become more elastic faster and the NPV benefits of option B greater than the proposal.</p>

Question	MEUG response
	(d) The most important part of the cost-benefit-analysis is the effect on dynamic efficiency. The paper should have at least qualitatively stated what those effects might have been consistent with the discussion in (c) above on the path to greater demand elasticity. The existing DD regime was always considered a first step towards developing a DD regime that could be easily accessed by load connected to distribution networks. Having no discussion on whether that goal will be facilitated or thwarted by the proposal relative to the other options is an important omission.
4. Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	No. MEUG is not convinced the proposed option is clearly the best long term option. MEUG <u>recommend</u> either: <ul style="list-style-type: none"> • Option B be implemented; or • If there are concerns on the timing to implement option B quickly enough, then as an interim implement either the proposal or option C and then implement option B.
5. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Following on from the response to Q.4 above, no.
6. Do you have any comments on the drafting of the proposed amendment?	See response to Q.5 above.

8. MEUG looks forward to possible consultation on the separate question of calculating constrained off payments when NRSS reaches an infeasible solution mentioned on page B and paragraphs 2.2.9 to 2.2.11.

Yours sincerely



Ralph Matthes
Executive Director