



MAJOR ELECTRICITY USERS' GROUP

5th May 2015

Greg Williams
Senior Advisor Wholesale Market
Electricity Authority
By email to info@ea.govt.nz

Dear Greg

Feedback on spot market review

1. This letter provides feedback by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) discussion paper¹ "Options to improve retail competition – findings of the spot market review" dated 12th February 2015 including reports by Monitoring Analytics and Oakley Greenwood.
2. We appreciated the opportunity to ask questions of Dr Howard Hass of Monitoring Analytics on a PJM perspective and Mr Greg Thorpe of Oakley Greenwood on an Australian NEM perspective at the Authority's teleconference workshop² on 15th April 2015. We also found useful the attendance by Authority staff to discuss this topic at the MEUG Executive Committee meeting on 22nd April.
3. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
4. Responses to questions in the discussion paper follow:

Question	MEUG response
1. Do you agree with the choice of high level spot market design issues we've considered? If not, what other issues should be evaluated and why?	Agree although we have caveats on the proposed exploration over 2015/16 on real time pricing and an ahead market as explained in answers to questions 2 and 4 below.

¹ <http://www.ea.govt.nz/dmsdocument/19227> found at <http://www.ea.govt.nz/development/work-programme/wholesale/exploring-refinements-to-the-spot-market/development/authority-seeks-feedback-on-findings-on-the-spot-market-review/>

² Audio recording published by the EA at <http://www.ea.govt.nz/development/work-programme/wholesale/exploring-refinements-to-the-spot-market/events/spot-market-review-workshop/> and MP3 URL <http://www.ea.govt.nz/dmsdocument/19334>

Question	MEUG response
<p>2. Do you agree that the Authority should explore real time pricing options in 2015/16? Please explain your reasoning</p>	<p>MEUG members have for a long time expressed their concern about the treatment of SPD model infeasibilities, and the confusion and concern caused by publication of prices based on irrelevant artificial model penalty costs. MEUG notes that RTP could not possibly be implemented without first solving the infeasibility problem. Therefore MEUG recommends that the EA should fix the infeasibility problem first, and once that is done, then review whether it is still worthwhile to consider exploring real time pricing options.</p> <p>In the meantime MEUG would like to see the Electricity Authority give a higher priority to considering and implementing incremental improvements to improve the forecasts of settlement prices.</p>
<p>3. Do you agree that the Authority should not explore zonal pricing in 2015/16? Please explain your reasoning</p>	<p>Agree. Both Dr Hass and Mr Thorpe were unambiguous about the pitfalls of zonal pricing and the direction in both PJM and NEM to move away from zonal and towards nodal pricing.</p>
<p>4. Do you agree that the Authority should explore introducing an ahead market (and shorter gate closure) in 2015/16? Please explain your reasoning.</p>	<p>MEUG is not convinced the EA should explore an ahead market as we suggest if there is a need for such then the market will develop an appropriate voluntary ahead market and products.</p> <p>The experience relayed by Dr Hass of a mandatory ahead market to assist PJMs fleet of slow starting large base load thermal power stations and what appears to be ongoing rounds of participants finding opportunities to arbitrage between the mandatory ahead markets and real time market followed by the market operator modifying the rules and design of the ex ante market to close those loopholes did not inspire confidence that an ahead market was appropriate or desirable for New Zealand. The experience of Mr Thorpe in NEM where they use voluntary financial arrangements for day ahead risk management and price discovery is more akin with New Zealand's market.</p> <p>We do not see any reason why a mandatory ahead market would have to be introduced in parallel with a real time pricing market. We expect a real timing pricing market, if the exploration in 2015/16 finds a net benefit of such an option, would be implemented ahead of any decision to have a mandatory ahead market. In deciding a preferred real time pricing option one factor should be to keep alive the possibility of a introducing a mandatory ahead market later. It is only for this reason that MEUG agrees the EA explore in 2015/16 the possibility of an ahead market as a very long term option after and should a real time pricing approach be developed.</p>

Question	MEUG response
5. Do you agree that the Authority should not explore 'paid for' demand response programmes in 2015/16? Please explain your reasoning.	Agree.
6. Do you agree that the Authority should not explore mandatory capacity products in 2015/16? Please explain your reasoning.	Agree.

5. We look forward to the Authority announcing next steps.

Yours sincerely



Ralph Matthes
Executive Director