



MAJOR ELECTRICITY USERS' GROUP

19 January 2018

Bennet Tucker
Market Security Services Manager
System Operations
Transpower
By email to system.operator@transpower.co.nz

Dear Bennet

Hydro Risk Curve Assumption Feedback

1. This is feedback from the Major Electricity Users' Group (MEUG) on the proposal by Genesis Energy (GNE) to include forecasts of possible commercial constraints to thermal generators purchasing fuel for the System Operator (SO) calculation of Hydro Risk Curves (HRC). GNE formally requested this issue be considered by the SO by letter of 11 December 2017 following discussions in August. The SO by email the day afterwards requested feedback from the market.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. The HRC is an important, but not the only, part of a suite of information the SO is required to publish to assist the market provide competitive, efficient and reliable power supply to customers as part of regulatory and contractual undertakings with the Electricity Authority. The market itself has numerous other pieces of information that individual market participants use to decide their own purchase and supply strategies in the electricity wholesale and thermal fuel markets given individual risk appetites. There are markets for such information and parties with greatest value creation opportunities or accretion risks will seek and pay for such information to the point where the marginal benefit of additional information equals the cost of that information.
4. It is within this broader context of electricity and fuel information markets where parties decide to accept, modify or seek out new sources of information that we view HRC. It is possible parties with a different view on the assumptions used by the SO to construct the current HRC can replicate and test the results with alternative scenarios. Those parties can also publish those results if they wish. That option is available to GNE. The key benefit of the way the HRC are currently formulated is the relatively high level of transparency of assumptions and therefore an ability for parties to replicate the forecasts and modify if they wish. The GNE proposal undermines that strength of the current HRC methodology.
5. Responses to the 3-questions in the SO memo are set out on the next page.

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Question 1	Do you agree contracted fuel limitations can be overcome using the relevant energy and fuel markets, and therefore contractual fuel limitations should not be modelled in the HRCs?
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6. Yes.
7. MEUG accepts there may be market failures in information markets related to thermal (and possibly other) power station fuel markets. In that case participants in those markets could voluntarily develop mechanisms to provide more information such as the voluntary approach of hydro-generators to disclosing lake inflows and lake levels.
8. There is nothing to stop GNE or any other generator disclosing more information to the market about their fuel supplies or a different view on HRC if they believe the marginal benefit to them of doing so will outweigh costs. We are sceptical of any suggestion, for example that a generator provides commercial information to the SO on fuel limitations without that information being available to the market for all participants to cross-check and challenge.
9. If contractual limitations were to be modelled and those contract details were not available to the market, then the SO would need to:
- Increase its resources to be able to assess the robustness of such commercial information for use in forecasting HRC's; and
 - Have legally enforceable sanctions to ensure such information was not just a partial or even deliberately biased view of that supplier. For example, a supplier may provide the SO with an existing contract but not disclose it was actively negotiating a new contract(s) with materially different terms and conditions.
10. MEUG cannot see how changing the HRC from being based on physical attributes to include commercial constraints will do anything other than make the HRC opaquer and hence less useful to the market.

Question 2	Do you believe the logistical and supply chain risks (i.e. practical limits or constraints on the ability of participants to overcome contractual limitations in short time frames) should be modelled in the HRCs?
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11. No.

Question 3	If you believe that fuel supply limitations should be modelled in the HRCs (contractual or practical), do you have any preference on how this could be best accomplished, with reference to the options discussed above? Do you have any other suggestions on how these limitations could be included in the HRC modelling?
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12. See paragraph 9 above for an initial list of material issues that would need to be overcome.

Yours sincerely



Ralph Matthes
Executive Director