Major Electricity Users' Group

6 May 2022

David Katz
System Operator
By email to system.operator@transpower.co.nz

Dear David

SOSFIP and EMP Review 2022

1. This is a submission from the Major Electricity Users' Group (MEUG) on the System Operator consultation paper "Security of Supply Forecasting and Information Policy and Emergency Management Policy Review" (SOSFIP and EMP) dated 29 March 2022.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.

3. Feedback on the six topics and proposed changes follow. We start with the topic of information disclosure first because that is relevant to the topics of forecast gas reallocation and electricity demand side response assumptions.

4. Not considered in this submission, because it is not directly related to the proposed changes to the SOSFIP and EMP, is the ongoing problem of information asymmetry between large suppliers with information on thermal fuel available and consumers making risk management decisions without visibility of that key information. Changes to SOSFIP and EMP won't and are not intended to solve that problem. It remains, in our view, an issue for the Electricity Authority to find a solution.

Encouraging proactive information disclosure to the system operator

5. The status quo collation of assumptions by the system operator is summarised as:

> "Participants are generally proactive in informing the system operator with relevant information, and helpful when approached. The longevity of this relies on good faith rather than policy."[2]

6. No evidence is provided that the status quo has failed or that there is an observable decrease in the willingness of electricity market participants and other parties to act in good faith.

[1] Document https://www.transpower.co.nz/sites/default/files/bulk-upload/documents/SOSFIP%20and%20EMP%20consultation%202022.pdf at https://www.transpower.co.nz/system-operator/stakeholder-interaction/invitation-comment-draft-security-supply-forecasting-and

[2] Ibid [106].

7. The proposed change to the status quo proposed in the consultation paper follows:

> "To ensure this information remains up to date and is enduring, we are proposing to include in the SOSFIP a requirement for electricity market participants to inform the system operator if there are changes that may impact assumptions outlined in the ERC assumption document."[3]

8. The SOSFIP is part of the Code. With the above proposed change, Market participants that failed to inform the system operator would be in breach of the Code.

9. This is a material change in the relationship and incentives between Market participants and the system operator. The status quos relationship with key parties is collegial. The system operator has an incentive to maintain those relationships by being independent and trustworthy not to disclose confidential information.

10. If the SOSFIP is changed there will be a fundamental change from a collegial to a compliance relationship. Market participants will be unsure if the system operator will claim a breach of the Code if, after an event, the system operator believes it was not informed. Unspecified in the consultation paper are relevant details of the proposal such as how will materiality of changes be defined. Setting aside as to whether there is a material problem with the status quo, MEUG is not convinced at this stage that the proposal has been sufficiently specified to allow an assessment of costs to implement and maintain in relation to electricity market participants.

11. Adding a new reporting obligation in the Code for participants should be subject to a cost-benefit-analysis to justify a code change. Adding into the SOSFIP a new mandatory reporting obligation without a full Code amendment consultation and cost-benefit-analysis is a poor process that should be avoided.

12. In relation to parties that are not electricity market participants, such as gas producers, the consultation paper notes (with text in square brackets added by MEUG):

> "We recognise this [the proposed change] will not capture gas producers who are independent of the electricity sector, these entities are beyond the legislative scope of the code."[4]

13. For parties that are beyond the legislative scope of the code that the system operator needs information to decide assumptions, there is no other option than to use good faith and develop trust based on confidentiality. If the system operator needs to have skills to implement those effective relationship with parties outside the ambit of the Code, then there is a case that those skills can also be used to maintain effective engagement with electricity Market participants.

14. Effective, timely and relevant provision of information by Market participants and others in the wider energy sector are most critical when lake levels fall below the Emergency curve. Details of short-term agreements just agreed matter at that point. At the other extreme details of every agreement signed matter less than making sure the long-term trend assumptions used still reflect medium forecasts. A compliance-based relationship

[3] Ibid [107]
[4] Ibid [107].

will impose greater than necessary transaction costs onto participants and the system operator. Participants will incur inefficient compliance costs because they will wish to avoid breaching the Code and will over-supply information. The System Operator will be overwhelmed with information that is not needed, when reasonable medium case assumptions would suffice.

15. The previous paragraph discussed how the quality of information required by the system operator pivots around whether lake levels are above or below the Emergency curve. MEUG notes that the Emergency curve has a degree of judgement and is part of a continuum rather than being a precise pivot point where there must be a step change in the quality of information the system operator uses. While the Emergency curve is calculated as a bright line it is one of many possible optimal lines and is also prone to changing as new information is uncovered. The Emergency curve is best thought of as an estimate than necessarily in all cases being the optimal point at which an Official Conservation Campaign (OCC) should be triggered.

16. In conclusion MEUG does not agree that proactively providing information relating to security of supply should be written into the SOSFIP as discussed above.[5]

Forecast gas reallocation assumptions

17. MEUG notes that the assumption of forecast gas available for reallocation to generation is the largest uncertainty facing the system operator when preparing Electricity Risk Curves (ERCs). As noted above, it is relevant to distinguish the quality of the assumptions needed depending on whether information is required for publishing risk curves when an Emergency has been triggered or at the other extreme where long-term trend assumptions are sufficient. Options 2 and 3 are more prescriptive than the status quo and, in the view of MEUG, unnecessary when reasonable long-term trend assumptions are sufficient.

18. Options 2 and 3 rely in part of whole on contracts disclosed to the system operator. Some contracts, or at least key parameters, are publicly disclosed by stock-exchange listed companies in any case. The risk is that non-listed companies may enter contracts and not act in good faith to inform the system operator of terms and conditions relevant to assumptions used for the risk curves. Under the status quo the incentive is on the system operator to manage that risk by maintaining good relationships with all parties.

19. A suggested benefit of option 2 relative to the status quo is "transparency of modelled input information used in the ERC" and is described in the consultation paper

> "If industry stakeholders do not fully understand the reasons behind changes to the ERCs, this can give impressions the curves were wrong and needed correction. This can impact confidence in the calculated risk levels and cause confusion amongst market participants."[6]

[5] Ibid Qu.21 [107].
[6] Ibid [61 c.].

20. MEUG is concerned that option 2 would allow some stakeholders to "fully understand" the calculations of the risk curves, for example given the concentration of suppliers, it will be possible for some suppliers to deduce other key participants standing by netting off their own disclosed position from the system operator's aggregated industry forecast.

21. There is a risk with options 2 and 3 of falling into the fallacy of false precision. That is using only contract data for gas reallocation might imply better precision than the status quo approach. Having more accurate gas reallocation data does not overcome the uncertainty bounds with the overall construction of the electricity risk curves, that those curves can change from day to day, and the Emergency curve not being an absolutely accurate measure of when an OCC should be triggered but rather an estimate based on judgement.

22. MEUG's preferred approach is a dynamic option 1 whereby the system operator uses judgement and the good faith of non-electricity market entities to assess the assumed forecast of physical supply of gas reallocated for generation. A dynamic option 1 approach differs from option 1 set out in the consultation paper as the latter has a set assumption 100 TJ/day of gas can be reallocated whereas in the dynamic option 1 the system operator can use judgement to alter that assumption. In exercising judgement, the system operator may rely on confidential information provided by external parties or an assessment of experience from prior emerging shortages. The benefit of this approach is the system operator has flexibility to accommodate new information.

Electricity demand side response assumptions

23. The same arguments for forecast gas reallocation assumptions in the preceding section apply to electricity demand side response assumptions. Accordingly, MEUG supports the status quo (option 1) and does not support option 2 type 1 or type 2 responses nor option 3.[7]

Proposal to remove the watch and alert curves

24. MEUG prefers to retain publication of the Watch and Alert electricity risk meter status.[8] The Watch and Alert risk meter triggers are understandable to consumers as they estimate the weeks until an OCC would commence being within 8 weeks and 3 weeks respectively. Publishing only the 1% and 4% electricity risk curves as a proxy would be a second best and misleading estimate of the Watch and Alert risk meter triggers because the 1% and 4% electricity risk curves at any one point in time estimate the expected risk over the next 12-months of a 1 in 100 year and 1 in 25 years probability of demand exceeding supply if no mitigating demand savings and new supply is forthcoming. For an emerging event, the Watch and Alert triggers are intuitively and conceptually better estimates to forewarn the public and industry of lead times to trigger an OCC.

[7] Ibid [84]-[87], Qu.14.
[8] Ibid [92]-[95], Qu.17.

Clarifying medium demand forecasts should used

25. MEUG agrees with the proposed change to use the medium ("P50") demand forecast rather than the status quo medium-high demand forecast.[9]

Clarifying when daily reporting commences and ends

26. MEUG agrees with the proposal to clarify when daily reporting should commence and when it should end.[10]

Yours sincerely

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Executive Director

[9] Ibid [88]-[91], Qu.15 and 16.
[10] Ibid [103]-[104], Qu.19 and 20.