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To: Submissions Mailbox
Subject: Undesirable trading situation–proposed actions

1 Do you agree with the proposed actions that the Authority intends to take to correct the UTS? Please give reasons for your answer.

Yes, but with qualifications. The Electricity Authority needs to examine exactly why it has happened and outline the steps to stop it happening again. It happened because, according to the market, reserve generators can make sufficient money by bidding in at high prices during shortages. Which is exactly what Genesis did. Unfortunately, and again according to the market design, most of the money went to non-reserve generators who, presumably, were making adequate income from the market operating normally. The problem with the market design is that in order to achieve what it adequate rewards for reserve generators, the rewards are exceedingly ill targeted. Not only that, but generators who hold reserve generation that is not needed for several years—as has happened recently with a sequence of wet years—get no reward at all. Yet the system needs them.

2 Are there any other actions that the Authority should take to correct the UTS? If so, please detail the other actions.

a) The Authority should look hard at the market design in the field of reserve generation. It has to find a better way of rewarding reserve generators—including those that are needed only in a dry year. If it does not do so, there is a risk that Genesis will decommission one of the sets at Huntly and put New Zealand at risk in a dry year.

b) Almost certainly, the whole saga could have been avoided or mitigated if ripple control had been used to reduce load over the critical period.

On one hand, the Authority is pushing “demand-side management” while, on the other hand, it continues to ignore the fact that the electricity market mitigates against using ripple control in the best interests of the consumer. Ripple control once provided a world leading system providing a large amount of demand side management with no pain to anyone. (I am referring to normal operation, not reducing energy demands in a dry year) I believe that the Electricity Authority's insistence that this be “market driven” rather than standing back and looking at the best interests of consumers is the reason for the Authority continuing to ignore this valuable asset. With the present regime, line companies have no inducement to reduce peak demand—other than to mitigate overloading on their own system—and, for perfectly good reasons, it always happens that some retailers are very happy to see high prices. Therefore, there is no chance of coordinated action that would lead to an agreement to shed water heaters during price spikes. But that is what we need.

It is up to the Electricity Authority to provide leadership in this matter.

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