



11 July 2013

Bruce Smith
General Manager – Market Performance
Electricity Authority
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By email: bruce.smith@ea.govt.nz

Dear Bruce

Increased electricity wholesale spot and hedge prices – February 2013 to March 2013

Thank you for the opportunity to comment on the above report prior to it being released.

We are pleased that the Authority has concluded that reduced output from Manapouri in January 2013 was a commercial response to impending transmission constraints and price separation, and as such, has identified the issue as one of market incentives.

We would like to make the following points on the Authority's report:

- The Authority states in the Executive Summary that “it is evident that with lower energy offers at Manapouri whilst spilling, it would have generated more energy, reducing spill and system dispatch costs”. Meridian considers the word ‘evident’ to be too strong. The counterfactual used by the Authority in its analysis assumes a static wholesale market, when in reality, any change in offers by one party is likely to prompt a response from other participants.
- The report should acknowledge that Meridian made requests to the Grid Owner to postpone or cancel scheduled transmission outages in Southland to avoid the risk of binding transmission constraints. We consider it to be important context that the Grid Owner's incentives in planning grid outages may not be well aligned to achieving an optimal market outcome.
- In concluding that 7.6% of the reported spill at Manapouri for January 2013 could have been used for generation, the Authority is also concluding that 92.4% of spill occurred for high inflow reasons and could not have been avoided. Meridian suggests this be made clear in the report.
- We note that any spill at Manapouri in January did not impact on the subsequent storage available at Manapouri during the period of high prices in February and March. Available hydro storage in February would have been the same regardless of whether water was spilled or used for generation in January. Meridian considers this is a critical conclusion that is not covered in the EA's analysis. Excluding this conclusion risks creating an implied link between spill at Manapouri and high prices in February and March (particularly given the title of the report). Meridian asks that the EA expressly note in its report that spill at Manapouri in January was not causative of high prices during February and March.
- With respect to the proposed solution of an intra-island FTR, Meridian notes there is unlikely to be a sufficient quantity of appropriate FTR's available to cover the entire output of the Manapouri power station, hence some basis risk (and incentive to avoid the binding of

transmission constraints) is likely to remain. We will address this issue in our submission on the Within Island Basis Risk consultation.

- Figure 6: The EA notes that Tekapo storage has been removed from NZ controlled storage for 2013. It is unclear whether this means that Tekapo storage has been removed from both the numerator and the denominator of the 'proportion of mean' calculation. We suggest Tekapo storage should only be removed from the numerator in this calculation – in undertaking a comparison of prices between years, it is clearly a relevant consideration that Tekapo storage was not available in 2013 while it was available in other years.
- Figure 28: We suggest that this chart include an indication of the periods when transmission outages were in place.
- Paragraph 10.7: We suggest that the nominal price impact is included as well as the percentage change, to provide additional context on the scale of the calculated price difference.

Our specific drafting suggestions to reflect these points are as follows:

- Executive Summary: "Increased energy offer prices from Manapouri, which reduced its output whilst spilling, in January 2013. The reduced output was a commercial response to impending transmission constraints and price separation. It is ~~evident~~ possible that with lower offer prices at Manapouri whilst spilling, it would have generated more energy, reducing spill and system dispatch costs. The Authority estimates that with lower energy offer prices at Manapouri over the 20 day period from 09 January 2013 to 28 January 2013 there ~~would~~ could have been an 8% reduction in system dispatch costs over this period and a 0.29% reduction in the system dispatch costs over the period from 01 January 2013 to 26 May 2013. It is important to note that regardless of whether water was spilled or used for generation at Manapouri in January, the impact on hydro storage at Manapouri would have been the same. As such, spill at Manapouri in January was not causative of the high market prices in February and March that are the main subject of this report."
- Paragraph 10.4: "As part of this enquiry, we observed high energy offer prices at Manapouri resulting in reduced output during periods of spill in January 2013. Meridian has indicated that during these periods, offer prices for Manapouri took into account the transmission outages and the resulting security constraints in the Southland region, so that the dispatched generation at Manapouri was at a level where these constraints did not bind. Meridian has also indicated that, prior to these transmission outages occurring, they had contacted the Grid Owner to request that the outages be moved, in order to avoid the risk that generation from Manapouri would cause the transmission constraints to bind."
- Paragraph 10.6: "We estimated the potential additional generation that could have been supplied from Manapouri during these periods of high inflow spill, had lower priced energy offers been provided at Manapouri. These simulations used the vSPD model with Manapouri energy offer prices set to \$0.01/MWh and included the transmission security constraints in the Southland region. This approach estimates the upper bounds of the market impact, when compared with an optimal market outcome. The simulations indicate that an additional 19GWh of energy could have been scheduled from Manapouri during the 20 days of high inflow spill at Manapouri, with the transmission security constraints in the region and South Island reserve requirements restricting further increases in its generation. This additional 19GWh represents 5.5% of Manapouri generation over the period from 09 January 2013 to 28 January 2013 and 7.6% of the reported high inflow spill at Manapouri for January 2013 (indicating that 92.4% of the spill that occurred at Manapouri in January 2013 was for high inflow reasons and could not have been avoided). A comparison of the actual and estimated (with low energy offer prices)

daily generation from Manapouri from 09 January 2013 to 28 January 2013 is shown in Figure 29.”

- Paragraph 10.7: Add reference to the price impact in dollar terms, as well as in percentage terms.

Lastly, has the Authority established any criteria to determine what type of pricing event might lead to an investigation such as the one undertaken?

No part of this letter is confidential. If you would like to discuss any matters or comments raised in this letter please contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Hall', written in a cursive style.

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