

Wholesale Advisory Group

Chair's Half Yearly Report to the Electricity Authority Board

January to June 2013

21 July 2013

Note: This paper has been prepared for the purposes of the Wholesale Advisory Group. Content should not be interpreted as representing the views or policy of the Electricity Authority.

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1 Introduction

- 1.1.1 The Wholesale Advisory Group (WAG) was established by the Electricity Authority (Authority) in May 2011 to provide independent advice to the Authority on the development of the Electricity Industry Participation Code 2010 (Code) and market facilitation measures.
- 1.1.2 The role of the Group is to investigate, analyse, and make recommendations to the Authority Board (Board) on the matters agreed to it in the WAG's work plan. The scope of WAG advice, as set out in its Terms of Reference, is to advise the Board on:
- a) the development of the wholesale electricity market, including the inter-related markets for energy (spot), ancillary services, and risk management contracts such as financial derivatives for energy and location hedges;
 - b) the development of provisions relating to reliable supply (which includes system security, reliability (security) of supply, and power quality), for the long-term benefit of consumers;
 - c) priorities for developing:
 - i) the Code especially in regard to Parts 4, 5, 7, 8, 9, 13, and 14; and
 - ii) market facilitation measures in regard to wholesale markets services; and
 - d) any other relevant policy matters in regard to wholesale markets services.
- 1.1.3 WAG's terms of reference require the Chair to report every six months to the Board on the Group's progress against its work plan. This is WAG's fourth half-yearly report, and it covers WAG's activities for January to July 2013.

2 Membership and meetings held

2.1 New appointments to the WAG

- 2.1.1 The Authority undertook an Advisory Group appointment process midway through the current WAG reporting period. As a result of this process the Authority:
- appointed a new WAG Chair – John Hancock – for a two-year term, commencing 1 April 2013

- reappointed three existing members – John Carnegie, Bruce Rogers and Richard Spearman – for a second term of two years, commencing 1 June 2013
- appointed two new members – Chris Jewell and Alan Eyes – for a two year term, commencing 1 June 2013.

2.1.2 They join the remaining members of the group whose terms extend into 2014 (refer Table 1 below).

2.2 Resignations and a Leave of Absence

2.2.1 James Moulder was the first Chair of the WAG, and he was appointed in March 2011 for a two year term. Towards the end of his first term, James indicated he would not be seeking a second term as WAG Chair. The WAG would like to take this opportunity to thank James for his leadership of the group and, in particular, his work overseeing the WAG's work on the Settlement and Prudential Security Review and the Wholesale Market Information Project.

2.2.2 Scott Harnett was appointed to the WAG in August 2012. He resigned from the WAG in April 2013, citing his other commitments.

2.2.3 John Woods was granted a Leave of Absence from the WAG in April 2013 due to illness.

2.3 Four WAG meetings were held during this reporting period

2.3.1 WAG has met four times during the six month period covered by this report: on 31 January 2013, 14 March 2013, 8 May 2013 and 12 June 2013. All meetings were held in Wellington, at the offices of the Authority. Table 1 gives details of WAG membership and members' meeting attendance for the four meetings covered by this report.

Table 1: WAG membership details for 1 January to 30 June 2013

Member	Affiliation	Date and term of appointment(s)		Current term end	Meeting attendance
James Moulder Chair (to March 2013)	Independent	March 2011	2 years		1 of 2

Member	Affiliation	Date and term of appointment(s)		Current term end	Meeting attendance
John Hancock Chair (from April 2013)	Independent	April 2013	2 years	April 2015	2 of 2
Bruce Rogers Deputy Chair ¹	Pricing Manager, Orion New Zealand	May 2011 reappointed June 2013	2 years 2 years	June 2015	4 of 4
Neal Barclay	General Manager Markets and Production, Meridian Energy	May 2011 reappointed August 2012	1 year 2 years	August 2014	3 of 4
John Carnegie	Manager, Energy, Environment and Infrastructure, Business NZ	May 2011 reappointed June 2013	2 years 2 years	June 2015	3 of 4
Graeme Everett	Energy Manager, Norske Skog Tasman	August 2012	2 years	August 2014	3 of 4
Alan Eyes	Energy Manager, NZ Steel	June 2013	2 years	June 2015	1 of 1
Scott Harnett	Managing Director, Abacus Consultants	August 2012	2 years resigned April 2013		2 of 2

¹ Due to a conflict of interest for James Moulder in his time as Chair, Bruce Rogers took on the Deputy Chair role for the WAG's Pivotal Pricing Project. This arrangement ended when John Hancock took over the Chair.

Member	Affiliation	Date and term of appointment(s)		Current term end	Meeting attendance
Chris Jewell	General Manager of Trading and Portfolio Manager, Genesis Energy	June 2013	2 years	June 2015	1 of 1
Stephen Peterson	Chief Executive, Simply Energy	May 2011 reappointed August 2012	1 year 2 years	August 2014	3 of 4
Richard Spearman	Operations Manager, TrustPower	October 2011 reappointed June 2013	2 years 2 years	June 2015	3 of 4
John Woods	General Manager, Wholesale, Contact Energy	May 2011 reappointed August 2012 Leave of Absence from April 2013	1 year 2 years	August 2014	1 of 2

2.3.2 At the invitation of the WAG Chair:

- Representatives from MEUG (Ralph Matthes) and a major user (Alan Eyes, NZ Steel) attended the 31 January meeting to present their views on pricing alignment issues from a time-of-use consumer's standpoint, and to emphasise the importance MEUG members place on this initiative and to the dispatchable demand project.
- Representatives from Meridian Energy (Gillian Blythe, with advisor Kieran Murray of Sapere) attended the 31 January meeting to discuss the report Meridian commissioned from Sapere on pivotal pricing issues, a copy of which was provided to the WAG. Meridian advised that the purpose of the report was to stimulate discussion on the topic of market behaviour rules in different jurisdictions that also operate under legislation similar to the Commerce Act in this country.

- Kevin Small of Transpower (system operator) continued his attendance at WAG meetings. Lisa Dhanji took on this role from the 12 June 2013 WAG meeting.

2.4 WAG has maintained the Interests Register as required by law

2.4.1 As required by the Crown Entities Act 2004, the WAG maintains an Interests Register. Members are required to disclose any interests to the Chair, and these are recorded in the register.

3 WAG's 2012/13 work plan was adopted in July 2012

3.1.1 This half yearly report is the second since the WAG embarked on its 2012-13 work plan which was agreed following discussions and correspondence with the Authority. The agreed 2012-13 work plan comprises three projects:

- a) improving pricing efficiency when a generator is pivotal (the pivotal pricing project);
- b) aligning forecast and settlement prices (the pricing alignment project); and
- c) enabling a national instantaneous reserves market (the national IR market project).

3.1.2 When the 2012-13 work plan was adopted by the WAG, it was decided to start the work year with the pivotal pricing project and the pricing alignment project. The third project, the national IR market, was initiated early in this half-year reporting period. Accordingly, over this reporting period, the WAG has progressed all three of the projects in its work plan. The WAG's report on its work to date on each of these is set out later in this report. However, the status of each project is summarised here:

- a) pivotal pricing project – WAG discussion paper was published for consultation on 28 May, and submissions closed 9 July 2013. WAG intends making its recommendations to the 6 November 2013 Authority Board meeting.
- b) pricing alignment project – WAG discussion paper was published for consultation on 9 July 2013, and submissions are due by 23 August 2013. WAG intends making its recommendations to the Authority Board before the end of the calendar year.

c) national IR market project – WAG has concluded that the benefits of a national IR market are sufficiently clear not to require the release of a discussion paper. The WAG therefore intends making its recommendations to the 4 September 2013 Authority Board meeting.

3.1.3 The WAG has also maintained a watching brief on the Authority's progress with the two earlier WAG projects: the settlement and prudential security review (SPSR) and the wholesale market information project (WMIP), as summarised later in this report.

3.1.4 The WAG will largely complete the projects on its current work plan by the end of this calendar year. In light of this progress, the WAG is now looking ahead to what new projects might be on the horizon for its 2013/14 work plan. In view of the importance of establishing appropriate terms of reference for new projects, the WAG suggests that the Authority Chair or member(s) of the Board and/or the Chief Executive attend the WAG meeting at which new projects are presented to the group to enable a comprehensive discussion on the terms of reference and scope.

4 Pivotal pricing project

4.1 Authority has sought WAG advice in considering pivotal supplier situations

4.1.1 In recent times, some generators have offered and set spot prices at high levels when they have been in a pivotal position. A generator is pivotal when some or all of its generation is needed to meet demand in a region, and is net pivotal when these conditions hold, and it has a short term incentive to favour higher spot prices.

4.1.2 High prices are essential when they reflect genuine supply shortages but are of questionable value if they are caused by suppliers exploiting situations where competitive pressure is weak. The key issue with high prices during pivotal supplier situations is that they can undermine confidence in pricing outcomes – and cause efficiency losses as parties take actions to reduce their exposure to pivotal supplier risk.

4.1.3 The Authority requested the input and advice of the WAG in considering issues associated with pivotal supplier situations. The WAG agreed in July 2012 to add this project to its work plan².

² Due to a potential conflict of interest (recorded in the Interests Register) James Moulder recused himself from the role of Chair for this project, and Bruce Rogers was appointed as Deputy Chair for this agenda item at each WAG meeting. This arrangement ceased when John Hancock was appointed as the new Chair of the WAG in April 2013.

4.2 Key milestones have been met and the project is on target for completion this year

4.2.1 The pivotal pricing project is one of the Authority's high-priority market development initiatives, and is referenced as project number B11 in the Authority's 2012/13 work programme. The Authority's 2012/13 Work Programme Report to 31 December 2012 noted that publication of a WAG discussion paper was expected before 30 June 2013. The WAG has achieved this milestone, and is on target for finalising its recommendations to the Authority Board in November of this year. Milestones and progress on the project are outlined in Table 2.

Table 2: Pivotal pricing project – key milestones and target timetable

Activity	Dates	Status
WAG agreed to add project to its work plan	5 July 2012	Complete
Consideration of introductory paper	September 2012	Complete
Consideration of draft discussion paper	17 October 2012, 28 November 2012, 31 January 2013	Complete
Authority Board given opportunity to comment on draft discussion paper	March 2013	Complete
Authority Board wrote to WAG suggesting some further issues to consider	April 2013	Complete
WAG to consider further draft of discussion paper	8 May 2013	Complete
Discussion paper released	28 May 2013	Complete
Submissions due	9 July 2013	Complete
Consider next steps/recommendations	30 July/5 September 2013	
Present recommendation to Authority Board	November 2013	

4.3 Objective is to improve confidence in the efficiency of prices when competitive pressures are weak

4.3.1 The Authority's objective in requesting the WAG to consider these issues is "to improve confidence in the efficiency of prices when competitive pressures in the wholesale market are weak, thereby contributing to the Authority's statutory objective by improving wholesale and retail market competition".

4.3.2 More specifically, the Authority has indicated that for an option to be effective, it should provide:

- consumers with more confidence about the efficiency of prices during pivotal supplier situations, and also
- investors with more confidence to charge prices they need to get a return on their last resort plant.

4.4 The WAG discussion paper explored efficiency issues in pivotal supplier situations

4.4.1 The WAG produced a discussion paper³ exploring the efficiency issues that could arise from pivotal supplier situations, the extent to which these are occurring under current arrangements, and possible options for addressing pivotal supplier situations. The discussion paper was released on 27 May 2013 for a six week consultation period. The paper focused mainly on 'local' pivotal supplier situations as this type of event triggered the Authority's request for advice. However, the WAG gave some consideration to pivotal supplier situations that affect wider areas (such as an island or the entire country), as these situations may have a bearing on the scope of any recommended changes.

4.4.2 The WAG assessed the performance of current arrangements against the Authority's statutory objective, and particularly the effect of pivotal supplier situations on economic efficiency. Based on this assessment, the WAG did not identify any specific efficiency losses from recent local pivotal supplier situations – but this is not entirely surprising as they are still fresh and effects may not yet have become apparent. Nor did the WAG's review identify any clear evidence of efficiency losses arising from wider pivotal supplier situations. However, it did not specifically examine whether or not spot

³ <http://www.ea.govt.nz/dmsdocument/15049>

prices reflect a competitive benchmark on average and it is aware of analysis by other parties that may raise questions in this area.

- 4.4.3 More generally, the WAG noted that offer behaviour can evolve rapidly, meaning that history may not provide a reliable guide to the future. For this reason, the WAG considered the potential for efficiency losses to arise in the future, based on the frequency of pivotal supplier situations that can be expected for underlying physical reasons, the plausible bounds for pivotal supplier actions, and the possible counter responses this could elicit from purchasers and end-consumers. This analysis indicated credible potential for material efficiency losses to arise from pivotal supplier situations in some scenarios – particularly in relation to dynamic efficiency effects.
- 4.4.4 In light of this finding, the WAG identified and considered seven high level options to address concerns around pivotal supplier situations:
1. Introduce conduct provisions into the Code
 2. Make a declaration when single generators are expected to be net pivotal and apply earlier gate closure to their offers
 3. Improve incentives on the grid owner to mitigate pivotal supplier risk via changes to the outage protocol
 4. Make the grid owner accountable for increased spot market costs during outages
 5. Apply a general cap on offers or spot prices in all trading periods
 6. Apply a temporary capping mechanism on pivotal supplier offers or affected spot prices in a region when there is a pivotal supplier
 7. Enforce a contract offer obligation where a supplier is expected to become pivotal.
- 4.4.5 The WAG assessed these high level options in terms of whether they will improve confidence in pricing outcomes in pivotal supplier situations, and their expected effect on investor confidence in last resort plant or demand response capability. The WAG also considered their potential to create unintended adverse impacts, and their expected implementation costs and timeframes.
- 4.4.6 Based on its analysis, the WAG considered that the Authority should investigate introducing conduct provisions into the Code and modifying the outage protocol. The WAG suggested that a temporary capping mechanism

should be regarded as the preferred 'fall back' option at this point. This means it could be progressed if conduct provisions and modifications to the outage protocol proved to be insufficient, or if new information emerges to place priority on improving consumer confidence in pricing outcomes ahead of other objectives (such as a significant change in offer behaviour by pivotal generators).

4.5 Next steps

- 4.5.1 The discussion paper consultation period closed on 9 July 2013. The WAG will consider issues raised in submissions, with a view to finalising a set of recommendations for the Authority Board in November 2013.

5 Pricing alignment project

5.1 Authority has sought WAG advice in aligning forecast and settlement prices

- 5.1.1 Wholesale market participants receive a series of spot price 'forecasts' over different time horizons. These guide participants about the expected financial consequences of their actions. Actual payments between purchasers and suppliers are based on settlement prices calculated after real time, and these can differ markedly from forecast prices, especially during periods of tight supply. This may inhibit voluntary demand response.
- 5.1.2 The Authority has requested advice from the WAG on the feasibility, benefits and costs of measures to improve the alignment between forecast and final prices. The WAG agreed in July 2012 to include this project in its work plan, beginning with an initial investigation, followed by development of a discussion paper for consultation.

5.2 The WAG intends making final recommendations to the Board by the end of 2013

- 5.2.1 This is another of the Authority's high-priority market development initiatives. It is project number D5 in the Authority's 2012/13 work programme.
- 5.2.2 The Authority's 2012/13 Work Programme Report to 31 December 2012 noted that the WAG discussion paper was on target to be released before the end of the financial year (30 June 2013). The discussion paper was released on 9 July 2013. After considering submissions, the WAG expects to make its final recommendations to the Board before the end of 2013.

Table 3: Pricing alignment project – key milestones and target timetable

Activity	Dates	Status
WAG agreed to add project to its work plan	5 July 2012	Complete
Consideration of an introductory paper	17 October 2012	Complete
Consideration of draft discussion paper	28 November 2012, 31 January 2013, 14 March 2013, 8 May 2013, 12 June 2013	Complete
Authority Board given opportunity to comment on draft discussion paper	3 July 2013	Complete
Discussion paper released (assumes no substantive comments received from Board)	9 July 2013	Complete
Submissions due	23 August 2013	Complete
Consider next steps/recommendations	5 September/17 October 2013	
Present recommendations to Authority Board	4 December 2013	

5.3 Authority's motivation is to promote competition by supporting demand-side participation where efficient

- 5.3.1 The New Zealand electricity spot market is settled on final prices that are published at least two business days after electricity is consumed. As a result, consumers that buy electricity on the spot market (or at a price that is linked to the spot price) cannot be certain what the price will be until after they have made their consumption decision.
- 5.3.2 To provide guidance about what the final price is likely to be, a series of spot price forecasts are published in the lead up to real-time. These include:
- prices from the price-responsive schedule (PRS) and non-responsive schedule (NRS), both of which are carried out every half hour for the next four hours, and every two hours for the next 36 hours; and

- 'real-time' prices (RTPs), which are calculated every five minutes and indicate prices for the immediately preceding five minute period.

- 5.3.3 These short-term spot price forecasts are usually quite reliable, but they can occasionally be wildly inaccurate, particularly when the power system is under stress. The unreliability of short-term spot price forecasts discourages parties from responding to them. After buyers have observed several forecast errors, they may conclude that the benefits of responding do not justify the costs.
- 5.3.4 This inhibits efficient demand side participation, which could substitute for additional generation and associated network investment. A preliminary estimate of the scale of the efficiency cost is \$27M NPV, with a range of \$5M to \$110M NPV. This estimate has been prepared on a 'bottom up' basis, and appears plausible in the wider context of studies of the estimated benefits of facilitating demand-side response in other jurisdictions such as the UK, Australia, and some parts of the USA.
- 5.3.5 Potentially more seriously, the unreliability in short-term forecasts may also discourage innovation in the demand-side response area and weaken confidence in the wholesale market.
- 5.3.6 In seeking improved alignment between forecast and settlement prices, the Authority's motivation is to promote competition by supporting demand-side participation, where it is efficient to do so.

5.4 The WAG discussion paper explores several approaches for improving alignment

- 5.4.1 There are already initiatives in the pipeline that are expected to improve the accuracy of short-term spot price forecasts, or to assist participants to manage short-term spot price variability. Among these are:
- the Authority's plan to improve the treatment of intermittent generation in the pricing process
 - the dispatchable demand initiative
 - the introduction of new revenue meters, which will be able to provide more accurate and reliable load measurements in real-time
 - the system operator's review of its short-term demand forecasting arrangements.

- 5.4.2 The WAG also notes there may also be the potential to improve the accuracy of RTPs (considered as forecasts of settlement prices) by changing some input parameters to align more closely with those used in final pricing.
- 5.4.3 Therefore, one option would be to take an incremental approach – i.e. to progress the above initiatives and re-evaluate the degree to which they address misalignment between forecast and final prices.
- 5.4.4 An alternative would be to continue progressing the above initiatives, but also (in parallel) to consider whether to move to settling on ex ante or real-time spot prices. Such a move would provide consumers with more certainty about spot prices ahead of, or close to, real-time, allowing more effective demand side participation.
- 5.4.5 The WAG discussion paper seeks feedback from stakeholders on whether the Authority should consider in more detail a potential move to ex ante or real-time pricing to support demand-side participation, or only take an incremental approach to improving the alignment between forecast and final prices.

6 National IR market

6.1 WAG is advising on the potential for a national IR market

- 6.1.1 The Authority has asked the WAG to provide advice on the potential for developing a national market for instantaneous reserve (IR) and, if feasible, to develop arrangements to give effect to it. The national IR market is listed as a top 10 project in the Authority's Statement of Intent and work plan 2012/13 (project number D21). The 2012/13 overall performance standard includes the preparation of a consultation paper, in the form of a WAG discussion paper.
- 6.1.2 The WAG agreed in July 2012 to include this project in its work plan, but deferred the start of its investigations until early 2013, to allow it to focus on the pivotal pricing project and pricing alignment project. The WAG focussed initially on identifying the scope for efficiency savings in IR procurement and provision. It has sought to quantify the potential benefits, and consider these against the likely costs. This is discussed further in section 6.2 below.
- 6.1.3 The WAG has concluded that there are clear net benefits of a national IR market and that these are expected to greatly exceed the costs. Accordingly, the WAG considers that there is little value in completing and consulting on a

discussion paper as contemplated in the Authority's 2013/14 work plan and the WAG's terms of reference. The WAG intends by-passing the discussion paper phase and proceeding directly to making its recommendations to the Authority Board at its meeting of 4 September 2013. The key milestones leading to this are set out in Table 4.

Table 4: National reserves market project – key milestones and target timetable

Activity	Dates	Status
WAG agreed to add project to its work plan	5 July 2012	Complete
Consideration of a scoping paper	March 2013	Complete
Consideration of options paper	8 May 2013	Complete
Consider recommendations	12 June 2013	Complete
Consider draft recommendations paper to Board	30 July 2013	
Present recommendations to Authority Board	4 September 2013	

6.2 Scope for efficiency savings in instantaneous reserves procurement and provision

6.2.1 The cost of instantaneous reserves (IR) procurement (i.e. the cost to purchasers) has averaged around \$45 million per year over the last six years. The cost of IR provision (i.e. the cost to the economy) is lower than this, but is expected to also be substantial.

6.2.2 There is scope to reduce both procurement and provision costs for IR. In particular, the current practice is to treat the North and South Islands as distinct IR markets. If these markets were combined into a national IR market, this would be expected to reduce IR costs for two reasons:

- a) IR providers in one island could compete to supply IR in the other island – at times this would result in savings because the least expensive resources would be selected from across New Zealand, rather than the least expensive sources within each island
- b) The total amount of IR that needs to be procured would be lower at times. This arises because each island's need is currently determined on

a standalone basis. With a national market, the overall IR requirement will often be the larger of the two island requirements, rather than the sum of individual needs.

- 6.2.3 In addition, a national IR market is likely to reduce energy procurement costs. This arises because the wholesale market auction process 'co-optimises' to identify the combination of resources from all providers that yields the lowest total procurement cost for IR and energy. At times, energy providers with higher offers may be scheduled ahead of lower cost alternatives for reasons associated with the availability or cost of IR.
- 6.2.4 There are, however, a number of potential costs, risks and technical challenges to be factored into the evaluation. These include:
- a) difficulties and costs associated with modifying system operation policies and the market software used by the system operator to dispatch the system (SPD and RMT⁴) together with any associated ongoing costs
 - b) costs to participants to modify systems and policies, and any ongoing costs
 - c) potential incremental operating costs for the HVDC such as increased maintenance
 - d) potential change to frequency quality in some situations
 - e) co-ordination with related market development initiatives, particularly the Under-Frequency Management review which was established to re-evaluate the way IR is procured and utilised, and to determine the optimal AUFLS⁵ arrangements.

6.3 The WAG intends recommending development of a national IR market should proceed as swiftly as possible

- 6.3.1 Discussions at several WAG meetings have concluded that the establishment of a national IR market would present obvious theoretical benefits in the areas of efficiency and competition. Supporting analysis commissioned by the WAG has concluded that a national IR market offers conservative NPV benefits of \$70 M, consisting of \$20M reduced economic costs of reserve provision, and \$50M of avoided peak capacity investment cost.

⁴ The Scheduling, Pricing and Dispatch tool and the Reserve Management Tool, respectively.

⁵ Automatic Under-Frequency Load Shedding, which is load that is armed to trip automatically if the frequency drops to certain predetermined levels

- 6.3.2 Costs of the project are expected to lie almost exclusively within system operator dispatch and scheduling systems SPD and RMT. While the costs of modifying these systems could be substantial, the WAG has concluded that it is highly unlikely that they will exceed the expected benefits.
- 6.3.3 The WAG has considered a range of other interactions and interdependencies with related projects (eg under-frequency management development initiatives, national frequency keeping market). It has found that, while there are some issues that if not resolved favourably might incrementally reduce the expected potential benefits, there are none that could threaten the overall economics of the project.
- 6.3.4 While the WAG expects that the joining of two smaller markets into one larger one will have clear competition and dynamic efficiency benefits, the WAG has not attempted to quantify or place a value on these.
- 6.3.5 There are several possible paths towards implementation of a national IR market. Some of these paths might take multiple years, however, it may be possible to capture some early benefits by proceeding in a staged manner. The WAG intends recommending that the Authority should engage with Transpower (as the system operator and the transmission asset owner) to identify in more detail the feasible options for implementing a national IR market. There are a number of design issues to be explored in such discussions, and these will be set out in the WAG recommendations paper.
- 6.3.6 The next stage of the national IR market project will be technical, and, in the WAG's view, can best be progressed by the Authority working directly with Transpower. The WAG is, however, keen to have further input at a later stage of the process, once more detailed information is available on feasible implementation approaches.

7 WAG has maintained a watching brief on Authority progress with SPSR and WMIP

7.1 SPSR progress

- 7.1.1 The WAG has maintained a watching brief on the Authority's progress with SPSR. In particular, the WAG notes that the Authority is currently consulting on a Code amendment proposal drawn from recommendations provided by the WAG and other individual participants. Authority staff prepared draft Code amendments for both weekly and monthly settlement options. The WAG has made it clear to the Authority that it recommended a weekly

settlement option and that this formed a part of a “package” of recommendations provided to the Board.

- 7.1.2 The WAG welcomed the opportunity to provide input on the consultation paper before it was finalised for publication, and is available to assist the Authority consider issues that arise in submissions.
- 7.1.3 The WAG has also maintained a watching brief on the Authority’s work in the area of managing retailer default situations, noting the potential implications for prudential requirements. The WAG is happy to provide further input on these matters if required.

7.2 WMIP progress

- 7.2.1 The WAG has maintained a watching brief on the Authority’s progress with WMIP. The WAG is pleased to note that the Authority has completed the Code amendment process for the wholesale market disclosure obligations (clause 13.2) and associated guidelines, which will come into force on 1 October 2013. The WAG also notes that the system operator has convened a review of the Planned Outage Co-ordination Protocol (POCP) and hopes that this will result in enhanced availability and accessibility of generation and transmission outage information.
- 7.2.2 The WAG re-iterates its desire to be kept abreast of progress and given the opportunity to provide further input where appropriate.

8 Other WAG activities

- 8.1.1 At the invitation of the Authority, the WAG made a submission on the terms of reference and charter for advisory groups. The WAG is very pleased to note that the Board has amended the charter to require the Authority to:
- keep an advisory group informed of the Authority’s progress in considering the advisory group’s recommendations on Code amendment proposals or market-facilitation measures
 - seek feedback from the advisory group if the Authority is considering deviating from the advisory group’s recommendations.
- 8.1.2 The WAG also notes the amendments made to its terms of reference, in particular the ability for the Authority to extend the term of the Chair or WAG members for up to six months pending replacement or for continuity with an existing project.

8.1.3 The WAG has also appreciated the updates it has received on other relevant Authority initiatives such as the UTS review, the distribution pricing review, and the transmission pricing method project.

9 Chair's commentary on overall performance of the WAG and the Secretariat

- 9.1.1 James Moulder stepped down as the foundation Chair for the WAG. His command of the technical domain and easy skills as Chair were effective in the Group bringing focused and timely recommendations on both the Settlement and Prudential and Wholesale Market Information reviews to the Board in its first term. The WAG is grateful for the time and expertise that he has contributed to the development of its work programme.
- 9.1.2 In addition, Scott Harnett resigned from the group during this reporting period and we thank him for his work during his time on WAG, as we do those members whose terms were renewed. It was particularly pleasing to field a strong set of candidates to join the group from which we were pleased to welcome two new members. Their contribution has already been valuable and we look forward to working with them as we progress through our tasks in the second half of the year.
- 9.1.3 The principal achievements of the WAG in the six months have been the release of discussion papers on both Pivotal Pricing and Pricing Alignment for industry input. We look forward to reviewing feedback from these papers as we prepare our recommendations for the Authority Board in the second half of the year.
- 9.1.4 As I have not been working directly in the New Zealand industry since the establishment of the Electricity Authority, and the formation of its Advisory Groups, I have been particularly struck by the strong sense of ownership that WAG has demonstrated for its work: this is evident in both its constructive submissions on the role of Advisory Groups more widely and its pragmatic consideration of a National Instantaneous Reserves market, which we hope to present to the Authority Board as a recommendation before the end of the year.
- 9.1.5 The environment in which we are operating remains dynamic and our work as important as ever but the group is well positioned to deal with the complexity of the tasks in front of it and the support provided by the secretariat continues to be a key contributor to the group's effectiveness.

9.1.6 My thanks again to the outgoing Chair and both past and present WAG members for their work, as well as those who have presented to the group and contributed technical expertise; in particular, Meridian Energy, MEUG and the System Operator.

John Hancock
July 2013