

19 August 2015

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sirs

Re: Consultation Paper - Shortened gate closure and revised bid and offer provisions

Thank you for the opportunity to provide feedback on the Consultation paper on shortened gate closure and revised bid and offer provisions.

Nova believes that the expected benefits of the shortened gate closure are likely understated, but respects that it is difficult to form hard and fast conclusions without undertaking significantly more technical analysis of the impacts. Given the clear benefits of the change in any case, such an exercise is not necessary to justify the move to a one hour gate closure.

We support the proposal to shorten the gas closure period on the basis of improved economic efficiency outcomes. The spot market is fundamentally an economic dispatch model designed to ensure that demand for electricity is met by the lowest cost generation. The gate closure rule, which was initially 4 hours at the outset of the market and subsequently reduced to 2 hours, is a constraint on generators responding dynamically to changing environmental and commercial conditions, meaning that higher cost plant may be dispatched when lower cost plant should. With the significant investment in market systems by the System Operator a few years ago, such modification as reducing gate closure times among other benefits were identified and used to justify that investment. We see no reason why the implementation of such improvements should be further delayed.

The proposal is clearly a conservative step in the right direction. Nova also suggests allowing generation quantities offered to be increased within the one hour gate closure as an additional step that could be considered. That would enable the market to respond dynamically to generation outages or a drop-off in wind generation, but without adversely impacting on security of supply.

Nova's only reservation is in respect of the grid updates within gate closure. It is not clear from the information provided how significant this might or might not be.

Please feel free to contact me if you wish to discuss our views further.

Yours sincerely



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Appendix A Nova Energy submission

Question No.	General comments in regards the:	Response
Q1.	Do you have any comments on the existing provisions in Chapter 2 of this paper?	No
Q2.	Do you have any comments on the problem definition relating to gate closure?	Nova agrees that a longer gate closure results in more uncertainty in terms of demand or intermittent supply. That uncertainty leads to greater price forecast error, which subsequently lead to additional operating costs due to thermal plant operating at prices less than its SRMC more than should be necessary.
Q3.	Do you have any comments on the problem definition relating to the way gate closure and grid emergency provisions apply to bids?	No
Q4.	Do you have any comments on the problem definition relating to requirements on intermittent generators to submit persistence-based forecasts in the last two hours?	Intermittent generators have an important role in the New Zealand market and it is appropriate that any additional costs to their operations be minimised. Nevertheless, differences in actual and forecast generation have a significant bearing on whether thermal plant is dispatched. Any move to improve the accuracy therefore is going to benefit the market.
Q5.	Do you have any comments on the problem definition relating to the drafting issues with re-offer provisions?	Nova supports the definition.

Q6.	Do you have any comments on the problem definition relating to grid owner reporting of late updates?	<p>In this case there is insufficient information being presented to make an adequate assessment of the true nature of this problem. It would seem that with 500 incidences per month there should be sufficient data to break down the nature of the updates that are late; the reasons for these; and an explanation of how many are unavoidable, versus avoidable but of no significance, or avoidable and significant.</p> <p>The point is made that 'The grid owner does not have the same kind of commercial incentive as a generator has to engage in strategic rebidding'. But it also appears that the grid owner does not have a commercial interest in adhering to the requirement to submit revised information about the grid within the current Code requirements.</p> <p>It is not the subject of this discussion paper, but it would seem that if the market is to approach better real time pricing then it is important that the grid is accurately represented well ahead of real time.</p> <p>If this is a systemic problem that can be resolved through operational changes within Transpower, then these should be addressed.</p>
Q8.	Do you have any comments on the problem definition relating to the cancellation of bids?	No
Q8.	Do you consider that the proposed Code amendments would carry a risk of unintended consequences? If so, what are they?	No, except (f) where it is not clear that relaxing the requirement on Transpower will not result in increased inaccuracies in modelling of the grid in the pre-dispatch schedules.
Q9.	If you are a generator or a dispatchable load purchaser, can you quantify the extent to which one-hour gate closure would allow you to reduce your cost of production? Please provide supporting evidence.	
Q10.	Do you have any other comments on the costs and benefits of the proposed Code amendment?	Nova believes that any improvements in intermittent generator persistence-based forecasts will have very significant positive benefits for offering of controlled generation. Wind generation has a marked impact on prices and both the shorter gate closure and improved forecasting will reduce incidence of base-load thermal generation being provided when output is higher than expected, or failing to be available when wind drops below expectations.

Q11.	Do you agree that the proposed Code amendment will better meet the objectives than the status quo? If not, why not?	Agreed
Q12.	Do you prefer the proposed Code amendment or Option B which would use a subjective structure for revising offers? Please explain.	The offering rules under the Code need to be well defined in order that traders participating in the market can be clear on their responsibilities and make decisive actions in response to market conditions. If the rules are unclear, then by default traders will want to test the limits of those rules when it comes to maximising opportunities for profits. That then obviates any benefits of a subjective structure.
Q13.	Do you prefer the proposed Code amendment or Option C which would use the structure for revising offers proposed by AEMC? Please explain.	<p>The proposed Code amendment is preferred because demand, and wind generation, in New Zealand is volatile around weather conditions. As such, and with a much smaller set of generators, there is nearly always sufficient reason to justify modifying an offer. It would seem that Option C would be ineffective in the New Zealand context.</p> <p>It is incumbent on generators therefore to maintain an orderly market that does not create unnecessary costs to participants.</p>
Q14.	Do you prefer the proposed Code amendment or Option D which would reduce gate closure restrictions in an alternative way such as providing more exceptions, moving to half-hour gate closure, or removing gate closure completely? Please explain.	<p>Nova favours reducing gate closure to one hour in any instance; as it is important that generation plant is responding to the most accurate information available.</p> <p>Nova would also like to see restrictions within the one hour limit relaxed in such a way that enabled greater market responsiveness without increasing risks. Such a provision would be to allow generators to increase their offer volumes in each offer band inside the one hour gate closure.</p> <p>This would enable generators to respond to increases in demand bids that occur after gate closure, or to an unexpected drop-off in wind generation. By excluding any decrease in offers, security of supply is maintained, and potentially increased.</p> <p>This may become particularly important in the absence of the Huntly units and Otahuhu B Power Station from the market.</p>
Q15.	Do you consider that the proposed Code amendment in Section 4 is preferable to the status quo and other options? If not, please explain your preferred option(s) in terms consistent with the Authority's statutory objective.	Yes; excepting that it is not clear from the paper that the relaxation on Transpower for the provision of grid updates is absolutely beneficial to the market.

Q16.	Do you consider that the proposed Code amendment in Section 4 complies with section 32(1) of the Act, and with the Code amendment principles, and should therefore proceed?	Yes, except that it is not proven that monitoring the grid updates is 'unnecessary'.
Q17.	Do you have any comments on the drafting of the proposed Code amendment in Section 4, which is included in Appendix A?	