

# Chair's Half Yearly Report to the Electricity Authority Board

January to June 2016

4 July 2017

**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 WAG is to investigate, analyse, and make recommendations to the Authority Board (Board) on matters agreed to and included 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 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
  - d) any other relevant policy matters in regard to wholesale markets services.
- 1.1.3 The WAG's terms of reference require the Chair to report every six months to the Board on the WAG's progress against its work plan. This is WAG's tenth half-yearly report, and it covers the WAG's activities for January to June 2016.
- 1.1.4 The WAG has made significant progress on all three items in its work programme in this reporting period. In particular, the WAG:
- a) submitted its recommendations paper on wind generation offers to the Authority Board on 29 June 2016, and the Board received the WAG's recommendations
  - b) published its discussion paper on wholesale market information disclosure exclusions on 27 June 2016
  - c) has nearly completed its discussion paper on the instantaneous reserve cost allocation and event charge regime.

## **2 The Authority is reviewing the future of the WAG**

- 2.1 Pending a review of its advisory groups, the Authority extended the terms of members whose terms were due to expire**
- 2.1.1 In March 2016, the Authority issued a call for nominations for WAG members in preparation for the terms of four members expiring in August.
- 2.1.2 However, the Authority subsequently announced its intention in late June 2016 to review the structure of its current advisory groups. The WAG appreciated the Authority Chief

Executive, Carl Hansen, attending its 23 June meeting to discuss the Authority's intentions for the review directly with members.

- 2.1.3 In light of the review, the Authority also decided not to progress with the nomination of new WAG members. Instead, the Authority asked existing members<sup>1</sup>, including those whose terms would be due to expire shortly, to remain on the WAG while the review was underway.

## **2.2 The Authority subsequently decided to disestablish the WAG once the group has completed its current work plan**

- 2.2.1 Although outside the period of this WAG half-year report, it should be noted here for completeness that on 9 August 2016 the Authority subsequently published a consultation paper on re-orienting the advisory groups. In this paper, the Authority discussed its view that evolving technologies and innovative business models are increasingly blurring the traditional demarcation between retail, wholesale and transport. This means that it is less relevant and useful to organise activities around those categories.
- 2.2.2 In the consultation paper the Authority:
- a) announced its decision to disestablish the WAG and the Retail Advisory Group (RAG) once each group had completed its current work plan
  - b) set out its proposal to establish two new advisory groups, re-orientated around key industry challenges and issues, rather than along the traditional industry structure lines
  - c) sought stakeholder feedback as input to the Authority finalising its views on re-oriented advisory groups.
- 2.2.3 The WAG acknowledges that this position is consistent with its own feedback to the Authority Chief Executive at the joint WAG/RAG meeting held 15 March 2016 – at that meeting, WAG and RAG members highlighted that their respective tasks were increasingly overlapping, and that the wholesale/retail split was becoming less fit-for-purpose.
- 2.2.4 The WAG was heartened by the Authority stressing in its consultation paper that it has found the advice of its existing advisory groups invaluable in supporting its market development activities.

## **3 Membership and meetings held**

- 3.1.1 The list of current WAG members for the period covered by this report, and the term of their membership, is set out in Table 1 below.

### **3.2 Four WAG meetings were held during the reporting period**

- 3.2.1 The WAG met four times during the six-month reporting period, of which:

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<sup>1</sup> One member, Graeme Everett, was granted a leave of absence in August 2015 due to illness. Mr Everett's term as a WAG member expired on 31 July 2016. In light of his leave of absence, the Authority did not ask Mr Everett to extend his term of membership.

a) three were full WAG meetings (18 February, 5 May, 23 June), which were held at the Authority's offices in Wellington

b) one included a joint meeting with the RAG at the start of the agenda (15 March).

3.2.2 Table 1 gives details of WAG membership and members' attendance for the four meetings.

3.2.3 The Authority extended the terms of four members shortly after the period covered by this report (refer paragraphs 2.1.3 and 2.2.2a) above). Their updated membership terms are included here for completeness.

**Table 1: WAG membership details for 1 January to 30 June 2016**

Member	Affiliation	Date and term of appointment(s)		Current term end	Meeting attendance
John Hancock (Chair)	Independent	April 2013 reappointed April 2015	2 years 2 years	April 2017 (extended to June 2017)	4 of 4
John Carnegie	Manager, Energy, Environment & Infrastructure, Business New Zealand	May 2011 reappointed June 2013 reappointed June 2015	2 years 2 years 2 years	June 2017	3 of 4
Alan Eyes	Energy Manager, New Zealand Steel	June 2013 reappointed June 2015	2 years 2 years	June 2017	3 of 4
Chris Jewell	Chief Financial Officer, Genesis Energy	June 2013 reappointed June 2015	2 years 2 years	June 2017	1 of 4
Neal Barclay	General Manager Retail, Meridian Energy	May 2011 reappointed August 2012 reappointed August 2014	1 year 2 years 2 years	August 2016 (extended to June 2017)	3 of 4

Member	Affiliation	Date and term of appointment(s)		Current term end	Meeting attendance
Graeme Everett	Energy Manager, Norske Skog Tasman	August 2012 reappointed August 2014	2 years 2 years	August 2016	given leave of absence in August 2015 (due to illness)
Stephen Peterson	Chief Executive, Simply Energy	May 2011 reappointed August 2012 reappointed August 2014	1 year 2 years 2 years	August 2016 (extended to June 2017)	2 of 4
Phillip Anderson	Portfolio Manager, Asia-Pacific Energy, Cumulus Energy Fund	August 2014	2 years	August 2016 (extended to June 2017)	3 of 4
James Collinson-Smith	Secondary Systems Asset Manager Planning Manager, Transpower (from October 2015 – formerly Contact Energy)	1 June 2015	2 years	June 2017	3 of 4
Stephen Drew	Manager, New Zealand, EnerNOC	1 June 2015	2 years	June 2017	4 of 4

#### 3.2.4 At the invitation of the WAG Chair:

- a) Paul Roberts and Chris Pugh of ASX joined the 5 May 2016 meeting to present developments in the ASX markets and progress towards achieving the WAG's recommendations regarding hedge trading on the ASX.
- b) System operator staff from Transpower (Matthew Hansen, Dan Twigg and Derrick Westenra) joined the 15 March meeting to present:
  - i) the reasons behind the cost and time needed to make changes to Transpower's systems

- ii) an update on offer and dispatch: bid and offer revisions/review of gate closure project.

3.2.5 Erich Livengood of Transpower (system operator) was invited to attend all WAG meetings as an observer, and did so for all but the 18 February 2016 meeting.

### **3.3 The WAG was involved in a joint session with the Retail Advisory Group**

3.3.1 On 15 March 2016, the WAG, as it had done in 2015, met with the RAG in order to discuss key matters of common interest and to provide combined input into the Authority's 2016/17 work programme.

3.3.2 Members appreciated the briefing provided by the Authority staff on:

- a) Authority projects and initiatives that relate to the advice given by the groups at the previous joint meetings of the WAG and RAG
- b) the Authority's potential 2016/17 work programme for the Market Design area.

3.3.3 Members also received presentations on the following items:

- a) the changing characteristics of the New Zealand power system, including a discussion on the development of the demand side, the role of regulation, and the risks the changing power system presents (political, security of supply and economic)
- b) a strategic perspective on industry data flows, including a discussion of the issues with data and data exchange protocols within the power system.

3.3.4 The joint WAG/RAG meeting concluded with the members of both groups participating in a lunch with the Authority Board. Over lunch, the Chairs of the WAG and RAG summarised the discussions held by the groups.

### **3.4 WAG has maintained the Interests Register as required by law**

3.4.1 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.

## **4 WAG expects to complete the remaining items on its current work plan in 2017**

4.1.1 Following engagement with the Authority Board, the WAG formally adopted its current work plan at its September 2015 meeting. The work plan consists of three projects:

- a) review of instantaneous reserve cost allocation and event charge
- b) offer and dispatch: wind generation offers
- c) wholesale market information: review of clause 13.2 exclusions.

4.1.2 In the period covered by the report, the WAG has completed one of the projects on its work plan – offer and dispatch: wind generation offers – and made significant progress with the other two.

## 5 Review of instantaneous reserve cost allocation and event charge regime

### 5.1 The Authority sought the WAG's advice on instantaneous reserve cost allocation

- 5.1.1 At the Authority's request, the WAG added the instantaneous reserve (IR) cost allocation and event charge regime to its work plan in August 2015.
- 5.1.2 The project aims to conduct a 'first principles' review of the way instantaneous reserve costs are allocated amongst parties, and considers the merits of the event charge regime. It seeks to identify any development options that may result in more efficient outcomes than the existing arrangements.
- 5.1.3 This project is item 2.9 in the Authority's 2016/17 work programme and a priority 2 initiative.

### 5.2 The WAG has been considering analysis into the efficiency of the cost allocation

- 5.2.1 The WAG began considering the efficiency of the current cost allocation arrangements in the previous half-year period. It has since been building on that preliminary consideration, drawing on analysis prepared by the secretariat.
- 5.2.2 The WAG has identified that IR costs primarily reflect the need to hold excess capacity on the system, to meet reserve requirements at times of peak demand. Therefore, the WAG has largely focused on whether the IR cost allocation could alter decision-making in a way that reduces the need for capacity at these times, as this is how meaningful benefits would arise.
- 5.2.3 The WAG has identified four aspects of the cost allocation that could be resulting in less than optimal outcomes in this respect. While some of the underlying issues are relatively straightforward, others are tremendously complex. In particular, the WAG has found that the HVDC adds complexity to the IR market, which is amplified by the national market for IR (NMIR). This has meant that some of the analysis the WAG has considered has been iterative, and has been evolving over the course of the last six months. The WAG considers it important not to rush its consideration of the issues, given the potential implications for wholesale market efficiency.
- 5.2.4 The four key aspects the WAG has identified are the:

#### a) allocation of costs on a pro-rata / runway basis

The WAG identified that allocating costs on a 'runway' basis would be theoretically more efficient than the current pro-rata approach. A runway approach would provide a more marginal signal of the impact that larger assets have on the need for IR – including at times of peak demand.

However, the WAG has so far formed the view that the benefits of moving to a runway approach are not compelling – they appear relatively small and are highly uncertain, and there is the potential for unintended consequences.

The HVDC has had a particular influence on the WAG's consideration of this issue. A key challenge has been determining the HVDC's influence on the need for IR at times

of peak demand, under different future scenarios. Analysis around this has developed from meeting to meeting.

**b) the de minimis threshold**

The WAG has considered how the de minimis sharpens or dulls the price signal to large assets that contribute the most to the need for IR. It quickly reached the view that it is appropriate to include a de minimis in the allocation, since small plant does not present an under-frequency event risk that necessitates the procurement of IR. However, the group considers that the system operator is best placed to determine whether the current value of 60 MW remains the most efficient de minimis level.

**c) allocation of costs to parties presenting a secondary event risk**

Reserve requirements are impacted by various parties that present a secondary event risk (because they are undergoing commissioning or do not meet the standards under Asset Owner Performance Obligations) – as the Authority has identified in the past. The potential for some of these parties to create significant costs has been of particular concern for the WAG.

It has been relatively straightforward to identify the costs that these various parties should face in theory. However, in practice, passing these through in a theoretically 'pure' fashion may be complex and require bespoke arrangements, and the WAG is of the view that bespoke arrangements should be avoided, except where there is a clear loss of efficiency.

The WAG is therefore still considering how to most efficiently deal with secondary event risks under the cost allocation. Input from stakeholders will help to progress the group's thinking.

**d) allocation of costs relating to the HVDC**

The HVDC proves to have a very interesting role in the reserve market.

To date, its main role in relation to reserves has been in contributing to the risk of an under-frequency event. Acknowledging this contribution ties the cost allocation into the Transmission Pricing Methodology (TPM). The WAG has hence been contemplating whether the HVDC's IR costs are most efficiently passed through via the TPM – including the proposed future TPM.

The HVDC's role is expanded under the NMIR, as sharing IR between the islands takes on greater significance. However, there are constraints on this sharing; high energy transfers will limit IR sharing at a time when the HVDC is also creating a high *need* for IR. This gives the HVDC a 'Jekyll and Hyde' character, which is challenging to account for in designing an efficient cost allocation approach. As well as focusing on capacity impacts, the cost allocation under the NMIR is requiring a significant focus on the potential for operational inefficiencies. The WAG has been considering analysis of these issues with a view to identifying how best to allocate IR costs under the NMIR in the long-term. This work will be a key focus for the WAG in coming months.

### 5.3 The WAG has considered the efficiency of the event charge regime

- 5.3.1 The WAG has considered the event charge regime separately from the rest of the cost allocation methodology.
- 5.3.2 The WAG engaged in considerable discussions on the event charge regime at its February and May meetings. With the group's support, the Chair and secretariat worked with one member offline to ensure their views were properly reflected in the analysis and discussion presented to the group.
- 5.3.3 The WAG has reached the view that removing the event charge is likely to be the most efficient approach in the long-term. This is because:
- a) it is unlikely to incentivise asset reliability improvements that offset the costs associated with administering the regime
  - b) it was initially introduced as a pre-cursor to the creation of a market whereby interruptible load (IL) could be procured based on its event-based costs. However, the analysis presented to the WAG suggests there is no way to implement event-based procurement efficiently, such that more IL would be incentivised to participate without significant distortionary impacts.
- 5.3.4 There was a view within the WAG that the event charge could be maintained in the short-term, but rebated to IR providers rather than IR causers. The view is that this would support IL provision in the short-term, while IR procurement arrangements may not sufficiently reward IL for its comparatively fast response time. The group has so far been unable to form a consensus position on this suggestion, so will be drawing on feedback from stakeholders to bridge the different perspectives.

### 5.4 Next steps

- 5.4.1 The WAG has been preparing a discussion paper for engaging with stakeholders on the issues and options. It considered a draft at its 23 June 2016 meeting and expects to agree a final draft in September 2016 to be presented to the Board for comment at the October or November Board meeting.
- 5.4.2 The IR cost allocation and event charge regime will be the main topic for discussion at the remainder of the WAG's meetings. The group expects to provide recommendations to the Authority Board in April 2017.

Activity	Dates	Status
WAG agrees to add project to its work plan	15 September 2015	Completed
WAG develop discussion paper	September 2015 – August 2016	Completed
Submit discussion paper to Board for comment	October / November 2016	Underway

Activity	Dates	Status
WAG secretariat to prepare summary of submissions following discussion period	December 2016	
WAG develop recommendations paper	January – February 2017	
Board to consider recommendations	April 2017	

## 6 Offer and dispatch: wind generation offers

6.1.1 The Authority asked the WAG to review the way in which:

- a) wind generation is integrated within scheduling and dispatch arrangements
- b) wind generators contribute to determining market prices.

6.1.2 The objective of the WAG project was to more widely review the spot market offer provisions covering intermittent (wind) generators to ensure that they are in the long-term interests of consumers. This included reviewing the existing arrangements that require wind generators to offer their output at \$0.01/MWh or \$0.00/MWh in the must run dispatch auction to ensure that reliability and efficiency are being promoted.

6.1.3 As part of its review, the WAG consulted informally with the directly affected parties – the system operator and large wind farm owners.

6.1.4 The WAG completed its *offer and dispatch: wind generation offers* project in June 2016, with recommendations delivered to the Authority Board at its 29 June 2016 meeting.

### 6.2 This project stemmed from the Authority's 2015 review of gate closure and bid and offer provisions

6.2.1 This WAG project has its origins in the Authority's work on Offer and dispatch: review of gate closure and bid and offer revision provisions (item 2.11 in the Authority's 2015/16 work programme). During the course of that project, the Authority determined that further work in the area of wind generation offers was required and that this should be undertaken as a separate project.

6.2.2 The Offer and dispatch: wind generation offers project is item 2.5 in the Authority's 2016/17 work programme as a priority 2 initiative.

### 6.3 The WAG identified two problems and considered options for addressing these

6.3.1 The WAG identified two key problems relating to wind offers:

- a) the Code does not clearly prohibit non-notified (or inadequately notified) withdrawal of wind generation

**b)** there is no clear mechanism in the Code for economic withdrawal of wind generation.

6.3.2 The WAG also considered potential problems related to incentives to forecast wind generation, but it concluded that they do not warrant further consideration at this time.

6.3.3 The WAG attempted to quantify the dollar value of the benefits from resolving both of the two identified problems. These are the benefits of facilitating economic withdrawal of wind but in a way that is well-signalled through offers submitted prior to gate closure. The WAG estimated that the present value<sup>2</sup> of the economic benefits of facilitating well-signalled economic withdrawal of wind generation would be \$3.6 million. The benefits would be less if only 5 minutes' notice of wind withdrawal was provided.

6.3.4 The two key options identified to address these problems were:

**a)** a proportional solution that would target the problems while avoiding substantial system changes, that is, Code amendments to:

- i) ensure offers reflect intentions for availability
- ii) require notice of withdrawal prior to gate closure
- iii) require information retention/disclosure

**b)** moving to a more sophisticated wind integration system such as in Australia's National Electricity Market.

6.3.5 The WAG was confident that option (b) could not be justified on cost-benefit grounds, especially as most of these benefits would be achieved by option (a) at a relatively low cost for implementation and ongoing operation.

6.3.6 The WAG also considered retaining the status quo, but concluded it could not support the status quo because:

- a)** it does not clearly resolve the identified problems
- b)** it may fail to capture significant efficiencies from facilitating economic withdrawal of wind with notice
- c)** it fails to address significant security concerns.

#### **6.4 The WAG made its recommendations to the Authority Board in June 2016**

6.4.1 Based on its consideration of the options, the WAG recommended the Authority address the identified problems by considering amendments to the Code to:

- a)** ensure offers reflect intentions for availability (focus only on large changes to intentions that result in changes in output greater than 20 - 30 MW)
- b)** require notice of the withdrawal of wind generation prior to gate closure (focus only on large withdrawals of more than 20 - 30 MW)

<sup>2</sup> When calculating the present value, the discount rate was assumed to be 8 percent and that the stream of benefits flowed at the end of each of 15 years.

c) require wind farms to retain information about their MW availability and the forecasts of that availability that have contributed to offers.

- 6.4.2 The WAG considered that this would result in a positive net present value of around \$3.1 million. The costs of implementing and operating the changes are estimated at \$0.5 million while the benefits are estimated at \$3.6 million. The changes would be consistent with the Authority's statutory objective and Code amendment principles.
- 6.4.3 The WAG acknowledged the benefits of moving to a more sophisticated wind integration regime including advanced central forecasting of wind generation. It concluded that the present level of wind generation penetration does not justify such a regime, but that its recommendations would be a substantial move in that direction.
- 6.4.4 The WAG was mindful that the Authority is required to consult on any amendments it makes to the Code and did not see value in undertaking a separate consultation of its own. Instead, the WAG moved directly to preparing and submitting a recommendations paper to the Authority Board.
- 6.4.5 Final revisions to the WAG's recommendation paper were considered and agreed by the WAG at its 5 May 2016 meeting. The finalised recommendations paper was submitted to the Board in June 2016.<sup>3</sup>

## 6.5 The Authority received the WAG's recommendations

- 6.5.1 The WAG Chair and secretariat presented the WAG's recommendation paper to the Board at its 29 June 2016 meeting. The Board received all of the WAG's recommendations as set out in its paper.
- 6.5.2 This phase of the project has now been completed and the project has been referred back to Authority staff for implementation.
- 6.5.1 A list of the completed milestones is provided in Table 2 below.

**Table 2 Offer and dispatch: Wind generation offers milestones**

Activity	Dates	Status
WAG agrees to add project to its work plan	15 September 2015	Completed
WAG development of recommendation paper	December 2015 – April 2016	Completed
WAG consideration of recommendation paper	May 2016	Completed
Authority Board to consider the WAG's recommendation paper	June 2016	Completed

<sup>3</sup> The recommendations paper is available at <http://www.ea.govt.nz/dmsdocument/20869>

## 7 Wholesale market information: review of clause 13.2 exclusions

### 7.1 The Authority sought further WAG advice on wholesale market information issues

- 7.1.1 The WAG considered wholesale market information (WMI) disclosure issues in an earlier project, culminating in a set of recommendations it made to the Board in August 2012. After considering the WAG's recommendations, the Authority progressed a Code amendment process that resulted in new WMI disclosure provisions, clause 13.2A, coming into force in October 2013.
- 7.1.2 The Code imposes a 'continuous disclosure' obligation for information that is relevant to the wholesale electricity markets. It also includes a specified set of circumstances, the exclusions, where such information does not have to be disclosed. When the Code amendment was made in 2013, the Authority noted its intention to review the exclusions after a period of time.
- 7.1.3 Accordingly, the Authority's work programme includes a review of the clause 13.2 exclusions in the Code to determine if they are appropriate and efficient. It is item 2.15 in the Authority's 2016/17 work programme and is a priority 2 initiative. The key goal of the project is to facilitate an active hedge market by enhancing the disclosure of information that influences the forward price curve. A more active hedge market assists with enhancing retail market competition. The WAG was tasked with reviewing the exclusions within the framework of the existing WMI disclosure regime.
- 7.1.4 The WAG is pleased to be given the opportunity to provide further advice to the Authority on wholesale market information issues.

### 7.2 WAG reviewed the exclusions and identified options for addressing the issues identified

- 7.2.1 The WAG began its investigation by drawing on a number of sources to identify possible concerns with the current arrangements. These included the Authority's 2014 hedge market survey, discussions with key parties and a comparison with NZX obligations and arrangements in some key overseas jurisdictions. The WAG concluded that:
- a) the availability and accessibility of wholesale market information has improved with the new arrangements established in October 2013
  - b) some information is not being disclosed, or is not being disclosed in a timely fashion
  - c) some of the disclosure exclusions in the Code may not support the Authority's statutory objective.
- 7.2.2 The WAG then followed a three step process for assessing the exclusions and formulating possible solutions:
- Step 1: Remove 'necessary exclusions' from further review.* The WAG considered an exclusion is 'necessary' if it is not reasonable under any circumstance to require a participant to disclose under the exclusion. Where the WAG determined that an exclusion is a necessary exclusion, that exclusion was not considered further in the WAG's review.

*Step 2: Case study assessment of remaining exclusions.* The WAG tested each of the remaining disclosure exclusions using hypothetical scenarios (a case study assessment). This assessment assisted the WAG's understanding of whether each disclosure exclusion is optimally encouraging competition, efficiency and reliability in the electricity market for the long-term benefit of consumers.

*Step 3: Identify practicable options to address concerns.* The WAG explored a range of possible options to address the concerns identified in Step 2. The WAG undertook a qualitative assessment of the options to identify a short list of options it considers have the potential to deliver cost-effective solutions.

### **7.3 WAG considers there are three promising Code amendment options and several possible market facilitation measures to address issues identified**

- 7.3.1 The results of the WAG's assessment was a short list of three Code amendment options that offered the potential for addressing the concerns identified and improving WMI disclosure outcomes without imposing undue risk of unintended consequences. These three options are:
- a) add a 'good conduct' provision
  - b) replace the existing 'commercial disadvantage' exclusion<sup>4</sup> with a 'reasonable person' exclusion<sup>5</sup>
  - c) do both: add a good conduct provision and replace 'commercial disadvantage' with a 'reasonable person' exclusion.
- 7.3.2 The WAG considered that any of these three options would have a net public benefit relative to the status quo. Furthermore, the WAG considered that any of these three options would improve delivery of the net public benefits of wholesale market information disclosure that the Authority contemplated when it introduced clause 13.2A in 2013.
- 7.3.3 The WAG also developed a number of possible market facilitation measures that could further assist with addressing the concerns it has identified. The potential benefit of these market facilitation measures is independent of, and incremental to, the benefits of the possible Code amendment options. The WAG suggested these measures should be considered even if the Authority decides not to pursue Code amendments. These measures are:
- a) encourage improvements in the functionality and use of the Planned Outage Coordination Protocol (POCP)<sup>6</sup>
  - b) raise participant awareness and understanding of the WMI disclosure obligations<sup>7</sup>

<sup>4</sup> Clause 13.2A (2)(b) exclusion: "making the disclosure information readily available to the public will commercially disadvantage the participant in a material manner"

<sup>5</sup> The WAG suggested the following for a 'reasonable person' exclusion: "a reasonable person would not expect the disclosure information to be made readily available"

<sup>6</sup> POCP is a means of co-ordinating outages, operated by the system operator and used by asset owners.

<sup>7</sup> The guidelines are available at: <http://www.ea.govt.nz/dmsdocument/15138>

c) improve the WMI disclosure guidelines.

#### 7.4 WAG published a discussion paper setting out the possible Code amendments and market facilitation measures identified

- 7.4.1 The WAG developed a discussion paper to describe its review process and findings, and to seek stakeholder comment on the possible Code amendments and market facilitation measures identified. The discussion paper emphasised that the WAG does not have a preferred option at this time. It sought stakeholder feedback on the options, particularly the benefits, risks and costs of each.
- 7.4.2 In preparing its discussion paper the WAG decided to adopt a new document format, aimed at making it easier for participants to engage. The document is less formal and includes greater use of graphics and tables to convey information.
- 7.4.3 The WAG discussion paper was released for public consultation on 28 June 2016 for a 6-week period, with submissions due on 23 August 2016.
- 7.4.4 The WAG expects to consider submissions and make its recommendations to the Authority Board early in 2017.
- 7.4.5 A list of the projected and completed milestones is provided in Table 3 below.

**Table 3: Wholesale market information: review of clause 13.2 exclusions milestones**

Activity	Dates	Status
WAG agrees to add project to its work plan	15 September 2015	Completed
WAG development of discussion paper	September 2015 – April 2016	Completed
WAG consideration of discussion paper	May 2016	Completed
Authority Board to consider discussion paper	June 2016	Completed
WAG releases discussion paper for consultation	June 2016 – August 2016	Completed
WAG secretariat to prepare summary of submissions following consultation period	August 2016	Completed
WAG development of recommendations paper	September 2016 – March 2017	
Authority Board to consider recommendations	April 2017	

## **8 Interest in other projects**

8.1.1 The WAG maintains a watching brief on a number of Authority and system operator projects that are closely related to its current or former projects. Members are appreciative of the updates they receive and the continued opportunity to engage on issues relevant to the WAG's terms of reference.

### **8.2 Spot market review**

8.2.1 At the 18 February WAG meeting, Authority staff and advisors provided an update on the options for real time pricing and for an hours-ahead market being considered by the Authority under its spot market refinement project.

8.2.2 The WAG appreciates being given the opportunity to provide its input, and looks forward to further updates on the Authority's direction and progress.

### **8.3 Offer and dispatch: bid and offer revisions/review of gate closure project**

8.3.1 The WAG retains an interest in this project, which is closely related to its own Offer and dispatch: wind generation offers project. At WAG's request, Transpower staff briefed the WAG at its 15 March 2016 meeting on progress with this initiative.

### **8.4 Reserve and frequency management programme**

8.4.1 The WAG continues to value the updates it receives on the Authority and system operator's joint work on the reserve and frequency management programme. That work programme captures a number of projects, including the following that the WAG has been involved in:

- a) Multiple frequency keeping
- b) National Market for Instantaneous Reserve
- c) National Market for Frequency Keeping
- d) Under Frequency Management.

8.4.2 The WAG's current IR cost allocation project (refer section 5) is also closely related to initiatives under the reserve and frequency management programme.

8.4.3 The WAG maintains an active interest in the progress and timelines for the reserve and frequency management work, and is interested in providing further input into the various projects as appropriate.

### **8.5 Hedge market development**

8.5.1 The WAG has maintained an active interest in the hedge market development project, having made recommendations on the project to the Authority Board in June 2015. The WAG received the following updates:

- a) at the 5 May 2016 WAG meeting, ASX staff gave a presentation on developments in the ASX markets and progress towards achieving the WAG's recommendations regarding hedge trading on the ASX. The WAG were encouraged by the progress made toward their ASX related recommendations.

**b)** at the 23 June 2016 WAG meeting, the secretariat provided an update on ASX's development of an electricity price-cap product, and discussed the working group that the ASX had established to advance the design of the product. Since this meeting, the ASX working group developed a cap design proposal, which was presented to and accepted by the 16 August 2016 ASX Users Group meeting. ASX are now working to develop a project to list both energy and capacity caps at Benmore and Otahuhu.

8.5.2 The WAG appreciates these updates and is keen to stay informed of progress with these important initiatives.

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

9.1.1 As in other years, the Retail and Wholesale Advisory Groups met together in March to discuss market development initiatives the Authority could consider as part of its 2016/17 and forward work programme. We focused on issues relating to the changing characteristics of the New Zealand power system and the potential for operational efficiency improvements in the electricity market.

9.1.2 This year a number of proposed programmes of work included projects that would conventionally be assigned not to one of the Authority's retail and network markets or wholesale markets teams but to both of them. Increasingly the traditional distinction between the two domains is blurring as new technologies make direct "wholesale" market access a realistic aspiration for even the smallest residential customer.

9.1.3 In June, the Authority Board announced its initial thinking to re-orientate the advisory groups around key industry challenges and issues, rather than along the traditional industry structure lines, partly as a direct response to our advice.

9.1.4 As a result of this, both the Wholesale and Retail Advisory Groups will be disestablished within the next 12 months. The Authority's proposal is to replace them with two new groups:

- a)** an Innovation and Participation Advisory Group, to focus on issues specifically related to new technologies and business models, and consumer participation; and
- b)** a Market Development Advisory Group, to focus on further evolving the 'machinery' of the electricity market.

9.1.5 The speed with which the Authority Board have moved on this initiative is a good example of the weight they place on advice from the advisory groups and the influence that consensus recommendations from the groups have on their thinking.

9.1.6 In the meantime, the WAG has continued to progress its work for the current year. We finalised our recommendations to the Board on wind offers and released an industry discussion document on exclusions from the wholesale market information disclosure obligations.

- 9.1.7 Our investigation into revised arrangements for the allocation of reserve costs has been fascinating and it has exposed how profoundly the new HVDC control systems have affected our wholesale market as we move from island-based arrangements to national markets for both reserves and ancillary services. This work is likely to run into early 2017 and will be the group's final project.
- 9.1.8 Once again, I would like to thank the Authority staff and external consultants who provide Secretariat services to the group. They have responded positively to the group's request that its discussion papers be drafted in a less formal style to make it easier for participants to engage with our processes. Equally, they have wrestled the complexity of reserve management arrangements in the national market into simple proposals for the members to evaluate.
- 9.1.9 Several active members' terms ended in the 6 months to June. All have been reappointed for the remainder of the WAG's existence. I'm particularly grateful to Neal Barclay who had asked to step down from the group following his appointment as General Manager of the Retail business at Meridian Energy, but has agreed to stay on a member of the group as we complete our work.
- 9.1.10 Graeme Everett suffered a stroke last year and has not been able to continue as a member. We have missed his contributions to the group: he has kept us honest in the need to engage with the technical detail which can mask material issues in market design. His mastery of the Code and its practical application has been invaluable to us as we have developed our advice.
- 9.1.11 At a personal level, I have been particularly grateful to Graeme for his counsel on some tricky issues and his quiet diplomacy in helping members find common ground on divisive issues. It is always good to hear news from him and we wish him strength as he works through his recovery.

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John Hancock  
**Chair, Wholesale Advisory Group**  
7 September 2016