meridian

30 April 2019

Submissions
Electricity Authority
By email: submissions@ea.govt.nz

Removal of constrained on payments for ramp-constrained generation

Meridian appreciates the opportunity to provide feedback on the Electricity Authority's proposal to remove constrained on payments for generators ramping down.

We agree there are issues with the existing arrangements for paying constrained on payments to ramp-constrained generation that is dispatched down, including:

- The current arrangements give out-of-merit generators incentives to prolong the time to ramp down as they receive constrained on payments for the total time they are dispatched out of merit.
- The current arrangements make investors indifferent between investing in slow-ramping and fast-ramping generation, or even worse, encourage investment in slow ramping generation that will accrue constrained on payments when ramping down.
- Scheduling and dispatch of, and investment in, ramp-constrained generation, is therefore promoted even when it is higher cost than other generation.
- Allocative efficiency is undermined because constrained on costs are not reflected in nodal prices, which may also lead to less efficient risk management.

Given the anticipated electrification and decarbonisation of the New Zealand economy, and the level of generation investment needed to support that transition, it is critical that investment signals are efficient and do not perversely incentivise slow ramping plant.

The Authority has decided to address this issue now because recent offering by a ramp constrained generator resulted in monthly constrained on payments exceeding $1.0m, compared to a monthly average of $76,000 for the 12 months ending 30 June 2018. The Authority says this is the most recent example of a recurring problem. We support the Authority taking the steps it proposes.

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Meridian understands that the proposal would ensure constrained on payments are not paid in relation to a generating unit:

- that was reducing generation in response to a dispatch instruction from the system operator; and
- where the dispatch instruction requires the unit to reduce generation at its maximum ramp-down rate.

We also understand that generation would still receive constrained on payments if it is dispatched out of merit in other circumstances.

Meridian prefers the proposal to the alternatives considered as it is simpler and lower cost. We note that any alternative option that seeks to address the problem via changes to the safe harbours in the trading conduct provisions would be inadequate because:

- the meaning of a "high standard of trading conduct" is unclear in this context;
- any change to the trading conduct provisions would have far broader implications;
- the trading conduct provisions are currently being considered in detail by the Market Development Advisory Group; and
- even if this option managed to prevent the maximisation of constrained on payments in some circumstances, it would not address the broader inefficiency arising from payment of constrained on costs to ramp-constrained generation when it is no longer required to meet demand.

Answers to the Authority's consultation questions are in Appendix A.

Please contact me if you have any queries regarding this submission.

Yours sincerely

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A. Responses to consultation questions

	Question	Response
1	Do you agree the issues identified by the Authority are worthy of attention?	Yes.
2.	Do you agree with the objectives of the proposed amendment? If not, why not?	Yes.
3.	Do you agree the benefits of the proposed amendment outweigh its costs?	Yes.
4.	Are there any other options the Authority should consider?	None that we have identified.
5.	Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	Yes.
6.	Do you agree the Authority's proposed amendment complies with section 32(1) of the Act? If not, why not?	Yes.
7.	Do you have any comments on the drafting of the proposed amendment?	No.