

# Removing constrained on payments for generation ramping down consultation 2019

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## Summary of submissions

25 June 2019



## Summary of submissions on our April 2019 removing constrained on payments for generation ramping down consultation

- 1.1 We published our proposal to remove constrained on payments for generation ramping down on 26 March 2019 for a five-week consultation.
- 1.2 Submissions closed on 30 April 2019. We received 6 submissions from the following parties. The consultation paper and all submissions are published on the Authority's website [here](#).<sup>1</sup>

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**Table 1: List of submitters on our April 2019 consultation**

Submitter	Role
Mercury Energy Limited Meridian Energy Limited Trustpower Limited Nova Energy	Large gentailer
Major Electricity Users' Group (MEUG)	Consumer or representative body
Transpower NZ Limited	Grid owner and system operator

- 1.3 Responses by individual submitter are presented in section 1 from page 3, grouped by consultation question. Additional comments are grouped by theme in section 2 from page 7.

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<sup>1</sup> <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/removing-constrained-on-payments-for-generation-ramping-down/consultation/>

## Section 1 Direct responses to consultation questions

**Direct responses** to questions asked in the consultation paper are presented in normal text.

Responses in *italics* are **not direct responses** to the question, but were extracted from other parts of the submission.

Q1. Do you agree the issues identified by the Authority are worthy of attention?	
Nova Energy	Yes
MEUG	<i>Agrees there are problems with how constrained on payments for ramp-constrained generation that became significant last year with changes in offer behaviour by some generators.</i>
Meridian Energy	Yes
Mercury Energy	Yes
Trustpower	<i>We are generally supportive of the proposed code change.</i>
Transpower	<i>We consider the problem described by the Authority does merit attention.</i>

Q2. Do you agree with the objectives of the proposed amendment? If not, why not?	
Nova Energy	Yes
MEUG	<i>Agrees with the proposal to amend the Code to "... remove constrained on payments to ramp-constrained and out-of-merit generation that is not required to meet demand and/or maintain security"</i>
Meridian Energy	Yes
Mercury Energy	Yes
Trustpower	<i>We believe the issues identified are valid and the proposed change to amend the Code represents the best option to address the inefficiencies rising from constrained on payments for ramp-constrained plant.</i>

Q2. Do you agree with the objectives of the proposed amendment? If not, why not?

Transpower	<i>Transpower as grid owner and system operator supports the Code change proposal to remove constrained on payments for generation that is ramping down.</i>
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Q3. Do you agree the benefits of the proposed amendment will outweigh its costs?

Nova Energy	Yes. Nova has considered the implications for its own generation assets and believes the changes are appropriate.
MEUG	Agrees the benefits of the proposed amendment outweigh the costs.
Meridian Energy	Yes
Mercury Energy	Yes

Q4. Are there any other options the Authority should consider?

Nova Energy	Not that Nova is aware of.
MEUG	Agrees that there are no other options likely to have a higher NPV.
Meridian Energy	None that we have identified.

Q5. 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.

Nova Energy	Yes
MEUG	There are no other options likely to have a higher NPV.
Meridian Energy	Yes. Meridian prefers the proposal to the alternatives considered as it is simpler and lower cost.
Mercury Energy	Yes

Q6. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act? If not, why not?	
Nova Energy	Yes
MEUG	Agrees the proposed amendment complies with section 32(1)
Meridian Energy	Yes
Mercury Energy	Yes

Q7. Do you have any comments on the drafting of the proposed amendment?	
Nova Energy	Nova has not considered the efficacy of the drafting.
MEUG	Has no comments on the proposed drafting of the Code amendment.
Meridian Energy	No
Mercury Energy	No

## Section 2 Comments on issues other than specific consultation questions

General support (or otherwise) for removing constrained on payments for generation ramping down	
Mercury	We agree with the Authority's assessment that the current arrangements promote scheduling and dispatch of, and investment in, ramp-constrained generation, even when it is higher cost than other generation. This undermines allocative efficiency, risk management efforts and market confidence because constrained on costs are not reflected in nodal prices, which makes hedging for the costs of ramp-constrained generation more difficult.
Meridian	We agree there are issues with the existing arrangements for paying constrained on payments to ramp-constrained generation that is dispatched down, including: <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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</li> </ul>

General support (or otherwise) for removing constrained on payments for generation ramping down	
	<p>down.</p> <ul style="list-style-type: none"> <li>• Scheduling and dispatch of, and investment in, ramp-constrained generation, is therefore promoted even when it is higher cost than other generation.</li> <li>• Allocative efficiency is undermined because constrained on costs are not reflected in nodal prices, which may also lead to less efficient risk management.</li> </ul>
Other comments	
Meridian	<p>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.</p>
Trustpower	<p>We are however curious about the comment that the status quo undermines incentives for investors to invest in generation that is fast-ramping:</p> <p><i>“... it may actually make investment less responsive by encouraging investment in generation that will accrue constrained on payments when ramping down”</i></p> <p>This might be interesting to review post implementation. It would be peculiar for constrained on payments when ramping down to be considered a net benefit in investment decisions. Specifically with respect to hydro-generation, restrictions on ramp-rates tend to arise as a result of Resource Management Act 1991 (the RMA) and local authority decisions, rather than physical limitations of the generating plant. There is more to be gained in investing in fast-ramping generation than in slow-ramping generation, particularly as we move towards having a large number of intermittent renewable generation sources on the system which will further enhance the value of fast-ramping flexible generation.</p>
Trustpower	<p>Finally, we would be interested in exploring in more detail the option to “Allow generators to make complex offers”. We acknowledge this would be an option better considered in a wider review so we would be supportive of the Authority in exploring it in a future work programme.</p>
Transpower	<p>We also agree with the evaluation that removing constrained on payments entirely could reduce reliability and any further consideration would require wider review.</p>