

# MINUTES

Meeting number: 14

Venue: Electricity Authority, Meeting Room 1, Level 7, ASB Bank Tower, 2 Hunter Street, Wellington

Time and date: 9:42am to 3:52pm, Wednesday, 19 June 2019

## Attendees

- Tony Baldwin (Chair)
- James Flannery
- James Flexman [left at 3:01pm]
- Darren Gilchrist
- Stu Innes
- Bruce Rogers [left at 3:09pm]
- Matt Rowe [left at 3:09pm]
- James Tipping

## Apologies

- Rebecca Osborne

## In attendance

- Murray Henderson (Principal Market Analyst, System Operations, Transpower)
- Tim Street (Manager Wholesale Markets, Electricity Authority)
- Alistair Dixon (Principal Adviser Market Design, Electricity Authority) [left 1:15pm returned 2:25pm]
- Mike Collis (Senior Adviser Wholesale Markets, Electricity Authority) [arrived 1:25pm left at 2:23pm]
- Simon Coates (Director, Concept Consulting) [arrived at 1:25pm left at 2:23pm]
- Phillip Beardmore (Director, Strata Energy Consulting) [arrived at 1:25pm left at 2:23pm]
- David Weaver (Consultant, Concept Consulting) [arrived 10:30am left 12:50pm]

*The meeting opened at 9:42am*

## 1 Administration

### 1A Apologies

Rebecca Osbourne

### 1B Interest Register

The Chair tabled the MDAG interest register. There were no changes from the previous meeting.

### 1C Minutes of previous meetings

The group confirmed the minutes of the previous meeting held on Wednesday, 8 May 2019.

### 1D Matters Arising

The group noted that James Tipping was leaving his role at Trustpower and that this would be his last meeting as an MDAG member. The group noted that James has served the group to a very high standard and that the industry appreciates his service on MDAG.

### 1E Action List

The Chair tabled the Action List.

### 1F Correspondence

The Chair tabled:

- a letter from James Stevenson-Wallace (Chief Executive - Electricity Authority) to the Chair of MDAG seeking his views about MDAG's composition
- a letter from the MDAG Chair thanking David Reeve for his presentation at the MDAG meeting held on 8 May, 2019.

The Chair gave an overview of his letter in response to the Authority Chief Executive's question about the composition of MDAG. The Chair noted that:

- In priority, the group's composition should be assessed by skill-based criteria and then by the wider composition of the group
- It is important to have members who demonstrate a capacity to act independently of their organisation.

### 1G Authority work plan update

The group agreed to discuss this at the end of the meeting.

### 1H MDAG annual report update

The group discussed the annual report for MDAG and agreed it follow a similar format as the previous year's annual report, and that it be finalised by the Chair without further input from members.

## 2 Saves and Win-Backs

The Secretariat advised the group that it should receive a letter from the Authority Chief Executive regarding Saves and Win-Backs letter before the next meeting. The main issues the Board were considering were:

- developing a potential trial structure
- implementation
- monitoring.

The Chair provided feedback from his discussion with the Authority Board.

## 3 Trading Conduct

### 3A Analysis from David Weaver and MDAG conclusions in relation to effects after the Meridian decision:

The group received a presentation from David Weaver (Concept Consulting) that sought to answer questions raised at the previous MDAG meeting.

The Group asked if the information portrayed on slide 7 of the presentation accurately took into consideration the timing of trading before and after the letter about the High Standard of Trading Conduct (HSTC) sent to Meridian from the Authority on 8 May 2017 (Meridian letter).

- | **Action 3.1** – David Weaver to look into whether the timeframe in slide 7 captures the correct time periods of trading behaviour that enable accurate identification of differences in behaviour prior to and after the letter sent to Meridian.

The group asked whether slide 10 of the presentation best identified whether there was unusual behaviour given the high hydro storage levels at the time, and if the y-axis' upper limit of \$250 per MW/h minimises the ability to make a conclusion about the information displayed.

- | **Action 3.2** – David Weaver to look into whether slide 10 captures the behaviour change given high hydro levels at the time, and whether the \$250 per MW/h maximum parameter should be increased.

The group asked about how the risk of hydro spill, reserve sharing, other trading conditions and transmission affected offers, HVDC utilisation, spot prices and risk management (including utilisation of tools such as FTRs)

- | **Action 3.3** – Secretariat to obtain data on hydro spill, reserve sharing, other trading conditions and transmission affected offers, HVDC utilisation, spot prices and risk management.

Members discussed contacting Meridian, Contact and Genesis for their opinions regarding how they view how the market responded after the letter regarding HSTC in 2016. The group specifically would like to ask:

- What they have changed post letter
- What other factors they have observed changing since the letter
- What factors they consider have caused a discernible decrease in HVDC utilization
- Why there were re-valuations of the water values of their stored water

- Does Meridian consider the Authority's letter a block on their risk management options.

| **Action 3.4** – Secretariat to contact Meridian, Contact and Genesis to ask for their views on how they see the market has adapted to the changes post the Meridian letter.

### 3B Planning for pivotal stakeholder briefing

1. The group decided it was best to hold this event as more of a discussion or briefing as opposed to a formal workshop.

The group decided on circulating a short document to stakeholders prior to the pivotal briefing which would consist of:

1. An invitation
2. Part: A – MDAG's explanation of pivotal
3. Part: B – MDAG's views on pivotal.

| **Action 3.5** – Secretariat to prepare document for stakeholder briefing, and Chair to approve document for publication.

### 3Bii Discussion of Sapere paper

The group discussed the Sapere paper and noted the following:

- That the intention of the paper was to create an effective safe harbour clause
- That this paper was commissioned by Meridian

The group noted that it was just focusing on pivotal initially, rather than attempting to identify an all-encompassing solution to behaviours that may fall under the banner of trading conduct, which was the approach proposed in the Sapere paper.

### 4 New Generating Technology

The group provided high level feedback on the write-up of the workshop held at the previous meeting. Key issues identified were:

- whether the scope of this project should include the consideration of 'behind the meter' services. The group noted that this would require input from and liaison with the Innovation and Participation Advisory Group (IPAG) as this group is currently looking at behind the meter services in their Additional consumer choice of electricity services (ACCES) project
- the importance of identifying the range of services offered by generating technologies in the wholesale market including ancillary services and arrangements for pricing and cost recovery of these services.

The group then discussed how the issues raised in the workshop should be prioritised. Two approaches were considered:

- clustering the issues and considering each cluster of issues in turn (evolutionary)
- considering all issues together (revolutionary).

An evolutionary approach could be an effective way to divide the project into manageable stages of work. A revolutionary approach is likely to be too big a task to take on and would

require a good level of knowledge of the developments likely to take place over the next 10 to 15 years.

The group identified key design principles that should guide the design of arrangements for new generating technologies:

- competitive neutrality – where possible, do not favour one technology over another to promote an efficient mix of supply to meet demand
- risk allocation – signal each technology’s costs and benefits in relation to promoting reliability and security of supply
- durable long-term arrangements – durable across a range of uncertain future scenarios
- transaction costs – only develop arrangements that signal the relative cost-benefit of participation by different technologies where the improved resource allocation outcomes outweigh the costs of developing and implementing the arrangements.

The group noted the asset owner performance obligations covering the mandated services that generators must provide are becoming increasingly out of date. More flexible arrangements will be needed to accommodate new technologies with a variety of different performance characteristics.

The group noted that there were some quick wins that the Authority could focus on initially, in particular:

- incorporating arrangements for IL from batteries in the Code
- Standards for solar inverters.

Beyond these quick wins the group felt the Authority should adopt a staged approach to incorporating of new generating technologies in the Code, but should consider issues with the key design principles in mind. The group felt that this would be a substantive programme of work for the Authority over the coming years.

The group agreed to recommend this approach to the Authority. The group did not consider that consulting with stakeholders was necessary before making its recommendations to the Board.

**Action 4.1** The Secretariat to draft a recommendations paper from MDAG to the Authority on how best to proceed with incorporating new generating technologies in the Code.

## 5 Work Planning

The group discussed the future pipeline in respect to the pivotal element under the trading conduct project. The group discussed future milestones, which were:

- To hold an industry briefing in July
- To create a discussion paper to analyse potential options
  - A draft should be completed by the MDAG meeting to be held on July 30, this should include a structural outline of the proposed approach and implementation
  - A final copy to be ready at the MDAG meeting to be held on 4 September
- Seek industry consultation on MDAG’s analysis of options

- Aim to produce a recommendations paper by December 2019, with the aim to bring this to the Authority Board early 2020.

| **Action 5.1** Secretariat to organise a stakeholder briefing in Auckland to be held 30 July 2019

| **Action 5.1** Secretariat to create a draft discussion paper, analysing potential options and identifying a proposed approach by the next MDAG meeting to be held on 30 July.

| **Action 5.2** Secretariat to draft a final version of the discussion paper to bring to the MDAG meeting to be held on 4 September

The group discussed the other elements under the trading conduct spectrum. The group noted that MDAG was currently working on elements 1-3 of the spectrum (which relate to pivotal) and had undertaken work and may engage in further work in relation to element 6 (market manipulation). The group also noted that it was appropriate for the Authority to lead work on elements 4 (other abuses of market power), 5 (insider trading), 7 (other, eg predatory pricing, collusion and price fixing), as these were technical and would require interaction with other agencies such as the Commerce Commission. The group requested that the secretariat update them on what the Authority is doing in relation to elements 4, 5, 7 and 8 once the Authority had established a plan for work on these elements.

| **Action 5.2** Secretariat to update MDAG on the Authority's thinking on addressing elements 4-8 of the trading conduct spectrum once the Authority had established a plan for work on these elements.

## 6 Publication of meeting papers

The group advised that the following papers should be published:

- The action list under agenda 1E
- The three letters under agenda 1F
- Simon Coates' presentation
- The minutes from the previous meeting.

*The meeting ended at 3:52 pm*

**I, Tony Baldwin (MDAG Chair), certify that the minutes recorded disclose all issues discussed at the meeting (date at the top), are recorded truthfully and without bias.**

*Signature:*

*Date: ()*