10 October 2017

Submissions
Electricity Authority
PO Box 10041
Wellington

By email: submissions@ea.govt.nz

Re: Real-time Pricing Proposal Consultation Paper

Thank you for the opportunity to provide comment on the Real-time Pricing Proposal Consultation Paper (Consultation paper). For Contact's response to the specific questions in the consultation paper please see Appendix 1.

1. **More accurate forecasts required**

Contact supports market participants accessing timely and reliable information on the prices they will pay or receive for their spot market transactions. While we are generally supportive of the direction of this paper, in order for the proposal to achieve its objectives of creating more certainty and improving the ability of parties to take action and make efficient pricing decisions, we think the accuracy of load forecasts also requires addressing. It appears that generally this inaccuracy relates to lines companies curtailing peak load to reduce transmission costs. Whilst this is an accepted practice it does not appear to be covered by the Code. If this practice was covered by the code to require load curtailment to be signalled in advance, Transpower would be able to provide a superior forecast and this inaccuracy could be reduced.

2. **Artificially capping the market will not lead to the best outcomes**

We do not believe that artificially capping the market at $10,000/MWh will lead to the best market outcomes. We note that the Authority considered two alternative approaches to derive the assessed economic cost of curtailment to consumers. This approach indicated a range of values (around $10,000/MWh to $60,000/MWh for New Zealand), recognising that costs were expected to vary according to each situation and deemed a scarcity price of $10,0000/MWh reasonable.

The proposed cap value of $10,000/MWh appears to be less than the break-even price for fast start options (e.g. batteries and peakers) with low capacity factors. Undercutting the break-even price will discourage investment in market based solutions and potentially make the capacity situation worse.

As proposed, we do not think the proposed scarcity values are high enough. To put this into context, the value of $10,000/MWh is less than the VOLL value of $20,000/MWh as stated in Part 12 of the Code and this value has not been adjusted for inflation. In the event the Authority does proceed down this path we believe at a minimum there needs to be a process in place to review the $10,000 cap at regular intervals

3. More Incentives and details are required for dispatchable demand lite

While we are supportive of a dispatch demand lite product, the consultation paper is short on information regarding implementation, and to ensure there are the right incentives to participate. Participation is important in order to address the issue of forecast inaccuracies due to non-scheduled demand reductions as mentioned in 1 above, and to encourage the use of emerging technologies and other demand based initiatives. The incentive to participate can be facilitated by constrained on/off payments, penalties, or by mandating under the code. In the absence of increased dispatchable demand lite participation, it is suggested that a reduction in the gate closure period is required to enable participants to better react to the real time price.

If you require further clarification on any of the above comments, or within Appendix 1 please do not hesitate to contact me directly.

Yours sincerely,

Gerard Demler

Transmission Manager, Contact Energy

Appendix 1

Q1. Do You agree with the broad principle of using dispatch prices to determine final prices? If not, please explain your reasoning	Yes provided the inputs are accurate. This requires an upgrade to the System Operator's load forecasting tool (used in the schedules) and all demand capable of being shed (including load control from lines companies) being able to be bid into the schedules. In the absence of this the forecast price will be no more accurate than it is currently. If parties are able to take action based on prices, this will result in more efficient decision making by participants.
Q2: Do you agree with using the time-weighted average of dispatch prices to calculate prices for a trading period? If not, please explain your reasoning.	Yes. As the Authority states in 3.10 (iv) the volume weighted price would be more accurate but it would be difficult to forecast these prices in the Forward Market as they are based on demand and generation volumes at each node. As a general rule we think that when plant is dispatched it should always get paid at least its offer price.
Q3: Do you agree with disestablishing the pricing manager and allocating functions to other parties? If not please explain your reasoning	Yes.
Q4: Do you agree with the general approach of using default scarcity values to handle generation shortages? If not, please explain your reasoning	Yes, this is a more efficient approach than using an infeasible price as an indicator of a generation shortfall these never flow through to final prices. This gives a sufficient indicator to demand and would create improved price certainty in the forecast schedules subject to all demand capable of being shed being bid in as stated above. However, we question is whether the proposed scarcity values are high enough as to not act as a cap. This value

	of $10,000/MWh is less than the VOLL value of $20,000/MWh as stated in Part 12 of the Code, a value which has not been adjusted for inflation.
Q5: Do you agree with using default scarcity bids before generation or dispatchable demand offered at a higher price in the dispatch schedule?	Our interpretation of the proposal is that the market will be capped by the scarcity values. The risk in setting a price cap is that necessary price signals to encourage investment in low utilisation assets will not be high enough. We believe more rigour is required in setting the price cap.
Q6: Do you agree the system operator does not need to make changes to the existing process it uses to notify distributors of emergency load shedding	Yes, but we are concerned that based on the proposed Grid Emergency (GE) Code changes that we will see more GEs declared and an increase in forced load shedding rather than the market delivering a solution. This can be avoided if the scarcity price levels are high enough that they are above market offers/bids and that all demand capable of being shed is able to be bid into the market.
Q7: What is your view on the preferred treatment of disconnected nodes? Please explain your reasoning	We agree. We also propose that there needs to be more rigour applied to the timing and accuracy of planned outage information to ensure the accuracy of Real Time Pricing (RTP).
Q8: Do you agree that it is not desirable to apply a cumulative price limit under RTP? If not please explain your reasoning	Yes. However we are interested in how the System Operator gets participants to curtail demand.
Q9: Do you agree the current principle of partially relaxing reserve procurement before invoking emergency load shedding should continue under RTP? If not, please explain your reasoning.	Yes and no. We do not believe the reserve requirement should be relaxed. We are however comfortable with a scarcity price for reserve to be modelled below the scarcity energy value. The practical impact is that the grid will operate in a less secure state

	before load shedding would occur. As per our response above, we do not believe the $9.5k is a high enough value to represent scarcity.
Q10: Do you agree with the proposed removal of the high spring washer pricing provisions in the Code? If not please explain your reasoning.	Yes, subject to more assessment of past events to determine the impact of applying scarcity pricing e.g. are we likely to see an increase in GEs for high spring washer situations (HSWS) as a result of the proposed code changes? How will the current negative prices that evolve from a HSWS be treated?
Q11:Do you agree with the proposed changes for demand inputs? If not, please explain your reasoning.	Yes
Q12. Do you agree that ION meter data should be the primary data source for demand inputs? If not, please explain your reasoning.	Yes, subject to cost and how this is allocated.
Q13. What is your view on the best approach to incorporate dispatchable demand within an RTP framework? Please explain your reasoning.	Yes, we agree dispatchable demand should be dispatched from the dispatch schedule rather than in the non-responsive schedule (NRS). The rollout of EDF Phase III is essential to broadening participation. Web services will facilitate participation from new participants / technology. GENCO is a barrier. We agree with Authority's view on the potential for dispatchable demand participants to re-bid within trading period if yo-yo dispatch is an issue, and that this would result in no constrained on-off payments.
Q14. Do you agree with the proposed features for a dispatch-lite product? If not, please explain your reasoning.	We are supportive of a dispatch-lite product (or other products that will

	increase the accuracy of the forecast schedules), but the consultation paper is short on detail (compliance and metering requirements) and we believe that more incentives are required to increase participation in DD. Dispatchable demand (or other products) should not be technology specific and should be able to be implemented with relative ease.
Q15. Do you agree with the proposal to allow revisions to offers and bids within trading periods in some circumstances? If not, please explain your reasoning.	Yes, subject to the same principles that are applied to existing technologies, being applied to any new markets/tech (bona-fide, or GE reasons)
Q16. Do you agree with using the last bid or offer received in a trading period when calculating constrained on and off payments? If not, please explain your reasoning.	Yes.
Q17. Do you agree we should retain a process for addressing material pricing errors? If not, please explain your reasoning.	Yes. An automated error check process can be implemented for all common errors otherwise participants may lodge a pricing error if they are not happy with the scarcity or offer/bid price. The current UTS process needs to be retained as well.
Q18. Which approach do you prefer for managing pricing errors: a manual claim or automated checking? Please explain your reasoning (this could include suggestions for an automated filter).	As above, a hybrid of both manual and automated checking to weed out the most common errors.
Q19. If we retain a manual claim process for pricing errors under RTP, who should perform that role: – the system operator? – the Authority? – the pricing manager, as their only function?	The Authority would be best placed to do this to remove any potential conflict of interest.

– some other party? Please explain	
Q20. Do you agree with the proposed treatment of spot prices during market system outages? If not, please explain your reasoning.	Yes. We would like to see more rigour around planned outage publication information to make the RTP accurate.
Q21. Do you agree with the proposed changes to forecast schedules to align them with dispatch schedules? If not, please explain your reasoning.	Yes.
Q22. Do you agree with the proposed use of dispatch schedules to apportion loss and constraint excess for financial transmission rights each month (if that is required)? If not, please explain your reasoning.	Yes (along with any rebates).
Q23. Do you agree with the proposed approach for transitioning to RTP? If not please explain your reasoning.	Yes, but this is subject to an update to the load forecast tool, EDF phase 3 implementation, and more incentives placed on DD Lite to participate in the market for RTP to be effective.
Q24. Do you agree with the objective of the proposed Code amendment? If not, please explain your reasoning.	Yes, but as per Q23 this is based on full participation of biddable demand
Q25. Do you agree with the cost benefit assessment? In particular: – what (if any) other sources of benefit should be included in the assessment? – what is your view on key assumptions, such as the level of improved demand response enabled by RTP? – what (if any) other sources of costs should be included in the assessment? Please explain your reasoning.	Somewhat agree. The effect/level of demand response will only improve if the current barriers to participation are removed and there is sufficient incentives to participate whether it be economic or mandatory. Without participation of all demand capable of being shed into the market there will be little or no improvement in the forecast price or the lessening of the saw tooth pricing we see under tight market conditions at present. To further increase the benefit of RTP the EA should review whether a further

	reduction in the gate closure period to 30 minutes would result in more accurate pricing.
Q26. Do you agree with our assessment of alternative RTP	Yes.