

Electricity Authority
via email: submissions@ea.govt.nz

Consultation Paper – Remaining elements of real-time pricing

Thank you for the opportunity to provide feedback on the consultation paper on remaining elements of real-time pricing. No part of our submission is confidential. We have responded to the consultation questions in the attached appendix and highlight some key messages below.

- Mercury considers that real time pricing has significant benefits for the electricity market independent of the inclusion of an expanded form of 'dispatch-lite' to include smaller-scale generation. We are pleased that the Authority has managed to obtain funding to ensure this important project can proceed to implementation. If the Authority proceeds with the inclusion of 'dispatch-lite' we would recommend further analysis be undertaken to fine tune the eligibility criteria and compliance requirements for distributed generation. The proposed methods for determining these features as currently outlined, leave much to the discretion of the System Operator which will create uncertainty for market participants. We would also like to see the proposed guidelines and policy statement on the compliance arrangements for 'dispatch-lite' circulated for comment ahead of their adoption.
- While Mercury agrees that for now reserve pricing under real-time pricing should place a higher cost on scarcity of FIR than scarcity of SIR we believe this relativity should be reviewed regularly as market conditions are likely to change over time and in the future the relative value of FIR and SIR may change.
- We support the risk violation curve approach for determining prices for reserves under real-time pricing and do not believe this increases incentives or opportunities for gaming. Ongoing monitoring by the Authority is an effective safeguard against gaming by market participants. We would prefer a risk violation curve that incentivises all energy and reserve offers to clear ahead of any trigger for shortfall pricing. We understand this is difficult to ascertain given the variable nature of historical offers and the uncertain nature of the future. Therefore, we recommend a hybrid curve with higher price and lower volumes, (more tranches) which would better accommodate the uncertainty while still maintaining a gradual response.
- Mercury believes a new type of formal notice to cover periods of reserve shortfall under real-time pricing is warranted given a) with the inclusion of 'dispatch lite' we can expect more smaller players with less market experience and less resource to potentially participate in the real-time market and b) there are low cost technological solutions that could be deployed to ensure information is accurately and efficiently transmitted, such as text alerts for example.
- We support the scarcity pricing proposals although a more frequent review period is preferable to ensure changes in market conditions and technology are accounted for. A biennial review would be better than every five years.

If you have any questions please contact James Flexman james.flexman@mercury.co.nz 09 308 8286.

Yours sincerely,



James Flexman
Wholesale Markets Manager



Appendix One Consultation Questions

Consultation Question	Mercury Response
<p>1. Do you agree with the proposed criteria for distributed generation to be eligible for dispatch-lite? If not, please explain your reasoning.</p>	<p>We agree in principle with the eligibility criteria for distributed generation. However, we would like more refinement of the criteria to make them clearer and we'd like to see further analysis of the implications of the potential impacts of those aspects that are clear. In particular, the 30MW threshold seems high and may have a cumulative unintended impact on the market, in the unlikely event that many (~30MW capacity) distributed generators opt in and are active in the market.</p>
<p>2. Do you agree with our proposed criteria for purchasers to be eligible for dispatch-lite?</p>	<p>Yes.</p>
<p>3. Do you agree participants providing SCADA telemetry should be eligible for dispatch-lite?</p>	<p>While we appreciate that SCADA telemetry has been selected for pragmatic reasons we would prefer more relevant and precise eligibility criteria over using SCADA telemetry as the bright line for who is eligible if this can be achieved.</p>
<p>4. Do you agree combining an acknowledgement response via the dispatch system with an obligation to immediately rebid or reoffer is the best design option?</p>	<p>In principle, yes, although as with our previous responses, we would like to see clearer eligibility criteria established.</p>
<p>5. Do you agree gate closure for all dispatch-lite participants should be set at 30 minutes (one trading period), the same as for current embedded generators?</p>	<p>Yes.</p>
<p>6. Do you agree with the proposed compliance arrangements for dispatch lite?</p>	<p>We would prefer greater clarity around the obligations for dispatch-lite participants rather than relying on SO discretion. The proposed guidelines and policy statement should be circulated for feedback ahead of being adopted. It is important that all market participants understand the basis and scope of dispatch-lite participation in RTP to ensure its effectiveness.</p>
<p>7. Do you agree with the proposed method to allow dispatch-lite participants to withdraw from dispatch?</p>	<p>While we appreciate that dispatch-lite market participants may not be able to dispatch 24/7 as bigger players do (for example because they do not operate outside normal business hours), we would like more analysis around the implications of many participants being able to withdraw dispatch simultaneously. This would be the case particularly if those participants were dispatching 30MW each.</p>
<p>8. Do you agree we should implement dispatch-lite as part of RTP, should we decide to proceed?</p>	<p>We strongly support implementation of RTP. We believe the initiative stands on its own merits regardless of whether dispatch-lite is also implemented. We see dispatch-lite as 'nice to have' as it will, if used by market participants, add a depth to the market but it is not a prerequisite for introducing RTP.</p>
<p>9. Do you agree reserve pricing under RTP should place a higher cost on scarcity of FIR than</p>	<p>Yes, but we believe FIR and SIR prices should be reviewed regularly as market conditions are likely to</p>



scarcity of SIR?	change over time and in the future the relative value of FIR and SIR may change.
10. Do you consider the risk violation curve approach would increase incentives or opportunities for gaming?	Not unless the ongoing monitoring by the Electricity Authority (which acts as an effective deterrent and ensures any questionable behaviour is addressed when it arises) becomes ineffective.
11. Do you agree we should implement the risk-violation curve we have described to handle reserve shortfalls under RTP?	Yes. We believe a risk violation curve is the appropriate methodology to handle reserve shortfalls in RTP.
12. Which configuration of the risk-violation curve do you consider we should adopt?	We prefer a risk violation curve that incentivises all energy and reserve offers to clear ahead of any trigger for shortfall pricing. We understand this is difficult to ascertain given the variable nature of historical offers and the uncertain nature of the future. As such we recommend a hybrid curve with higher price and lower volumes (more tranches) which would better suit the uncertainty while still maintaining a graduated response.
13. Should we set a total reserve shortfall quantity limit if we implement the risk-violation curve under RTP?	No. There is no limit to reserve shortfall. If a limit is required for model purposes, then it should be set larger than what is technically feasible under current plant/transmission settings.
14. Do you agree a new type of formal notice to cover periods of reserve shortfall under RTP is not warranted?	No. Given the objective is to facilitate greater participation in RTP it is important that small players potentially unfamiliar with the market and lacking large scale resources get access to information instantly. There are low cost technological solutions that can be deployed to ensure information is transmitted, such as text alerts for example.
15. Do you agree with the proposed methodology to calculate scarcity pricing values?	Broadly yes. Relativity must be maintained to other shortfall related price settings.
16. Do you agree the Authority should have an obligation to review the scarcity pricing values at least once every five years?	Yes, although we would recommend a more frequent review period, for example biannually given market conditions can change rapidly and may do so in the future as emerging technologies are adopted and NZ moves to produce more renewable energy.
17. Do you agree with the objectives of the proposed amendment?	Yes.
18. Do you agree with the objective of the proposed Code amendment?	Yes.
19. Do you agree with the cost benefit assessment? 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 other sources of costs should be included in the assessment?	Yes.
20. Do you agree with our assessment of	Yes.



alternatives?	
21. Do you have any comments on the drafting of the proposed Code amendment?	No.

