

16 December 2022

Andy Doube  
General Manager Market Policy  
Electricity Authority  
By email to [WholesaleConsultation@ea.govt.nz](mailto:WholesaleConsultation@ea.govt.nz)

Dear Andy

### Options to reduce operational coordination risk – consultation paper

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper "Driving efficient solutions to promote consumer interests through winter 2023," 25 November 2022.<sup>1</sup>
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
3. In summary MEUG agrees with the proposals in the paper to proceed with options A, B, D and E, agrees with some caveats options F and G be considered further as possible options, and that C, H, I, J and K should not be considered for winter 2023. MEUG suggests an additional option is to have the ability to use less than N-1 security for northwards HVDC flows when North Island Instantaneous Reserves constraint HVDC flows.
4. Detailed comments follow.

Question		MEUG comment
Q1.	Do you agree that operational coordination performance has become more challenging for the reasons indicated above? If not, what is your view and why?	<p>Increasing uncertainty of wind generation and less flexible thermal generation are the two key operational challenges for the system operator.<sup>2</sup> Part of the reasons for the latter is the challenging policy environment for existing and new flexible thermal generation and upstream gas supply chain investors.</p> <p>Agree the purpose of this work, refer paragraph [2.1], is to consider "... a range of potential options to better manage potential risks to balancing supply and demand for winter 2023."</p>

<sup>1</sup> Document URL <https://www.ea.govt.nz/assets/dms-assets/31/Driving-efficient-solutions-to-promote-consumer-interests-through-winter-2023.pdf> at <https://www.ea.govt.nz/development/work-programme/risk-management/winter-2023/consultations/#c19291>

<sup>2</sup> Less flexible thermal generation combines the discussion in subsection titled "higher fuel and carbon costs have raised start costs for thermal plant" and "changing role of thermal generation means more frequent start decisions."

Question		MEUG comment
Q2.	Do you agree that the factors in paragraphs 4.10 to 4.63 create information challenges or misaligned incentives, and that these make it hard to achieve optimal commitment actions? If not, what is your view and why?	Agree these factors need to be considered. Other important considerations may emerge as further analysis and implementation proceeds.
Q3.	Do you agree that it is prudent to examine options to address information and incentive gaps identified above? If not, what is your view and why?	Yes.
Q4.	Do you agree with the proposed evaluation criteria? If not, what is your view and why? Are there other criteria that the Authority should consider?	Pragmatic for initial screening and note the backstop in [5.3] that the evaluation criteria do not override or diminish the Authority's statutory objective.
Q5.	What if any other options should be considered to better manage residual supply risk for Winter 2023?	In instances where there are constraints in the North Island instantaneous reserves market (NI IR) and that shortfall reduces flows South to North across the HVDC below the physical capability of the HVDC, then the option of having less than N-1 security for the HVDC should be available. This would require further work to weigh the increased probability of forced demand curtailment in the North Island and which loads would be affected if an unexpected event occurred leaving just one Pole, compared to the expected cost of constraining the HVDC and effect of elevated prices in the North Island net of lower prices in the South Island than would otherwise have been. We see this as one option to consider for this very narrow case of when NI IR was constraining northwards flows and only for winter 2023. In implementing this solution for next year, the possibility of making this sufficiently robust to become a standing part of the market for further years should be considered.
Q6.	Do you think it would be beneficial to publish the residual offer information used by the system operator when calculating Grid Warning and Emergency Notices? If not, what is your view and why?	Agree option A, provide better information headroom in supply stack, should be implemented subject to final due diligence checks. The latter includes confirming with the system operator implementation is feasible, resources available and costs not material.  This due diligence check applies to options B, D, E, F and G, and to MEUG's suggested option in response to Q5 above.
Q7.	Do you think it would be beneficial to provide sensitivity case spot price forecasts in forward schedules, as well as central forecasts? If not, what is your view and why?	Agree option B, provide forecast spot prices under demand sensitivity cases, should be implemented.

Question		MEUG comment
Q8.	Do you agree that cross-industry work on improving the quality of intermittent generation forecasts is unlikely to be available for Winter 2023? If not, what is your view and why?	No. Given uncertainty and poor quality of forecasting wind is one of the two primary factors (refer MEUG comment Q1), then some interim action must be possible for winter 2023 that will not jeopardise longer-term solutions to be finalised from 2024.
Q9.	Do you agree that the system operator should procure an external wind forecast and ask participants to review their offers if there are large discrepancies between the forecast and offers? If not, what is your view and why?	Agree option D, System Operator review of wind offers based on external forecast, should be implemented for winter 2023. MEUG is unsure if there is a misalignment between the incentives on wind farm owners to improve wind generation forecasts and the need for such by the system operator. If there is a material misalignment, then allocating the \$150,000 implementation cost to wind farms proportional to the inaccuracy of their forecasts, will improve alignment of wind owner incentives and the needs of the system operator.
Q10.	Do you agree that the availability and use of 'discretionary' demand control (such as ripple control not used for instantaneous reserves) should be clarified? If not, what is your view and why?	Agree option E, Clarify availability and use of 'discretionary demand' control (such as ripple control). This work is critical because while this is a complex issue, the payback of providing MW for potential critical forecast trading periods in winter 2023 is probably the highest of any option.
Q11.	Do you agree that work should be undertaken on a new integrated ancillary service for winter 2023 to help manage increased uncertainty in net demand? If not, what is your view and why?	Option F, introduce new integrated ancillary service cover at times to offset increased uncertainty in net demand, should be investigated as a possible long-term option. MEUG's agrees work <u>could</u> be undertaken on option F provided there is first, a check on the risk the work is too complex to guarantee a robust outcome by the winter deadline. Second, confirmation this work will not divert resources from working on options with likely greater payback such as option E above.
Q12.	Do you agree that selectively increasing ancillary service cover should be considered as an interim option for Winter 2023? If not, what is your view and why?	For option G, selectively increase existing ancillary service cover at times to offset increased uncertainty in net demand, the same comments as option F above apply. Note the proposal by MEUG in response to Q5 takes a different approach by relaxing reliability levels.
Q13.	If increased cover from an existing ancillary service at times is pursued further as an option for Winter 2023, what are your views on whether to utilise frequency keeping or instantaneous reserve, and why?	No view.

Question		MEUG comment
Q14.	Do you agree the option of requiring retailers to make compensation payments to customers affected by forced power cuts should not be explored for Winter 2023? If not, what is your view and why?	Agree with one caveat that option H, require retailers to make compensation payments to customer affected by forced power cuts, be considered as a potential longer-term solution if problems persist. The caveat is the current compensation of \$10.50 per week per customer be increased by inflation since that rate was set. Irrespective of whether this is implemented, we agree a review would be appropriate for later years.
Q15.	Do you agree that reviewing the default pricing in the Code to apply in energy and reserve shortfalls should not be explored for Winter 2023? If not, what is your view and why?	Agree option I, review administered prices to apply in energy or reserve shortages, be considered as a potential longer-term solution if problems persist.
Q16.	Do you agree that an hours-ahead market should not be explored for possible adoption for Winter 2023? If not, what is your view and why?	Agree option J, introduce hours-ahead market, could be considered as a potential longer-term solution if problems persist.
Q17.	Do you agree that mechanisms that procure additional resources outside of the spot market should not be explored further for Winter 2023? If not, what is your view and why?	Agree option K, procure additional resources outside of spot market, could be considered as a potential longer-term solution if problems persist. Agree with the analysis in table 1 of the consultation paper that the risk of unintended harm of this option is high.
Q18.	Do you agree that options A, B, D, and E appear attractive and should be progressed further? If not, why not?	Agree. See detailed comments on each above.
Q19.	Do you agree that options F and G should be assessed further to determine if they are likely to have net benefits? If not, why not?	Agree. See detailed comments on each above.
Q20.	Do you agree that options C, H, I, J and K should not be progressed further for winter 2023? If not, why not?	Agree. See detailed comments on each above.
Q21.	What if any other matters should be considered when assessing options to better manage residual supply risk for Winter 2023?	Refer MEUG comment to Q5.

Yours sincerely



Ralph Matthes  
Executive Director