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Electricity Authority
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Ensuring an Orderly Thermal Transition

Meridian appreciates the opportunity to comment on the Electricity Authority's consultation paper on ensuring an orderly thermal transition. Meridian broadly agrees with the Authority's conclusion that the risk of disorderly thermal exit is low at present and that the market settings should enable efficient exit decisions.

The Authority nonetheless sets out in the consultation paper a range of options (summarised in Table 3), including:

- options that are already being considered or are already part of the Authority's work programme to consider in future;
- two options that could be considered if the risk of disorderly exit increases; and
- several options that the Authority does not intend to pursue further.

Options that are already part of the Authority's work programme

Meridian supports the work that is already underway and is expected to be undertaken in the near future in particular consideration of a new 'standby reserve' ancillary service and a review of the administered scarcity prices in clause 13.58AA of the Code since those values have not been reviewed since 2011 and should reflect any changes in the cost of involuntary load reduction to consumers (if demand is curtailed) or reduced system security (if there is insufficient reserve).

In addition, Meridian queries whether the Authority's work programme should also include a review of the security of supply standards in clause 7.3(2) of the Code and the associated security standards assumptions document used by the system operator in carrying out annual security of supply assessments. Some participants may look to those annual assessments for a forward view of security of supply, to understand the potential repercussions of thermal exit, and inform investment decisions. The security standards have not been reviewed since 2017, at which time the Authority said it would not propose any changes or issue a paper but that it would review the standards again within five years. To our knowledge that review has not occurred.

In Meridian's opinion the Authority could also consider the merits of further improvements to thermal fuel information disclosure to facilitate an orderly thermal transition. A lack of fuel or lack of fuel storage flexibility can have a significant impact on market outcomes and efficiency, in much the same way as plant capacity reductions. In fact, not procuring or not disclosing fuel availability or flexibility could result in greater uncertainty, inefficient price discovery, and reduced security as other participants do not know whether the capacity is available. Better informed participants will be able to make more efficient decisions in the long-term interests of consumers during the transition. Currently there is limited information available about contracted thermal fuel supply for electricity generation or the flexibility of upstream gas storage to serve electricity generation needs and asymmetry relative to information disclosed about hydro storage. The market often has to make thermal fuel assumptions based on observed offer behaviour in real time. When the Authority previously consulted on improved information disclosure in respect of thermal fuels, it did not take action to require more thermal fuel information disclosure to the market (which would likely have required changes to the exceptions to the disclosure obligation in the Code). Instead, the Authority put in place a quarterly reporting regime that required all "major participants" to disclose to the Authority (rather than the market) when they relied on exceptions to the disclosure obligation. Meridian remains hopeful that the quarterly reporting regime is a stepping-stone for the Authority to move towards requiring that information about contracted thermal fuel and fuel storage be disclosed to the market.

Options that could be considered if the risk of disorderly exit increases

The consultation paper indicates that if the risk of disorderly thermal exit increases then the Authority could consider:

- modifications to the stress testing regime; and
- introduction of a minimum notice period for plant capacity reductions.

Meridian is comfortable managing longer-term risk, so is relatively ambivalent about modifications to the stress testing regime. However, in Meridian's opinion, a minimum notice period for reductions to plant capacity could assist with investment and operational planning. We see potential merit in further consideration of such a notice period now even though the risk of disorderly exit appears low. The Australian regime with a default three-year notice period would be a useful starting point. However, the details of any notice requirement would need to be clarified, including the interaction with existing wholesale market information disclosure obligations.

Our understanding is that should any generator decide to significantly reduce capacity at a plant, that would be disclosure information as defined in the Code and disclosure would be required under clause 13.2A. Prior to a certain decision to reduce capacity, it will be arguable that the disclosure information comprises matters of supposition or is insufficiently definite to warrant being made readily available to the public.¹ A minimum notice period may therefore provide an earlier indication of intention to reduce capacity although there would need to be some acknowledgement that the actual timing of any capacity reduction would be subject to final decisions by the generator and could change. In Meridian's opinion, indicative public information about the likely timing of plant capacity reductions would be better than no, or ad hoc, public information.

Options that the Authority does not intend to pursue further

Meridian agrees with the Authority's assessment that two-part markets should not be considered further, including a:

- capacity mechanism;
- contingent contracting obligation (like the retailer reliability obligation in Australia);
- strategic reserve; or
- short-term emergency reserve.

All two-part market options have much in common as compulsory contracting mechanisms to provide an additional source of revenue for generation capacity, whether that be all capacity or a subset.

Meridian agrees with the Authority that it is not clear whether consumers would benefit from a two-part market because:

¹ See the exception in clause 13.2A(2)(g) of the Code.

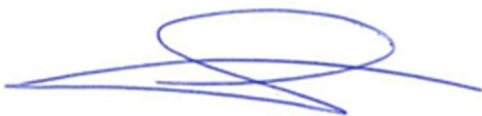
- such markets tend to raise overall system costs;
- the change would be substantial and take several years to design and implement, which would create new forms of uncertainty and risks for consumers and suppliers;
- the required changes would be difficult to modify or unwind and would have a relatively high risk of unintended adverse consequences; and
- it is not clear that such market designs would facilitate the shift to a renewables-based system.

In addition, Meridian considers fundamental market redesign along such lines could lead to:

- a loss of diversity and innovation to solve capacity or energy supply issues;
- questions over whether capacity or reserve plant will in fact be available and generate when needed and therefore a likely need for the contemporaneous introduction of detailed penalty regimes that end up serving much the same purpose as scarcity pricing in an energy-only market; and
- susceptibility to increased lobbying and the risk of short-term political influence or interference and therefore the risk of increased cost and uncertainty due to frequent rule changes or changes in operations for reserve plant and in respect of the procurement of capacity.

Meridian therefore agrees that the Authority should not further consider these options to mitigate the risks of a disorderly thermal transition. The risks and costs would outweigh any potential benefit to consumers.

Nāku noa, nā



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