



9 February 2023

Electricity Authority
By email: policyconsult@ea.govt.nz

Code amendment omnibus two

Meridian appreciates the opportunity to comment on the Electricity Authority's consultation paper on multiple discrete proposals to amend the Code. This submission addresses the proposal to enhance, and make permanent, the existing urgent Code amendment on the use and availability of controllable load, including the creation of two price bands for difference bids. Responses to the Authority's consultation questions on this proposal are appended.

Meridian is broadly comfortable with the proposed changes to Part 6A. We do not have any further comment on these proposals at this time.

Permanent Code amendment to clarify use and availability of discretionary demand control

Meridian supports making the urgent Code amendment permanent. We understand the intention to signal what controllable load might be available upon request through a Warning Notice (WRN) to be priced in tranche 1, rather than following instructions under a Grid Emergency Notice (GEN) to be priced in tranche 2. However, we query whether the proposed pricing of tranche 1 at \$0.01/MWh may lead to unintended consequences.

Meridian's understanding of the system operator's process under tight supply conditions is as follows:

- The system operator first issues a Customer Advice Notice (CAN) and at this point requests that connected asset owners like distributors supply information on available controllable load.
- As required by the Code, connected asset owners supply this information using difference bids unless an alternative method has been agreed with the system operator.
- If supply remains tight the system operator issues a WRN and *requests* controllable load to be reduced (the proposal is that this be priced in tranche 1 at \$0.01/MWh).
- If supply continues to be tight the system operator issues a GEN and *instructs* controllable load to be reduced (the proposal is that this be priced in tranche 2 at \$9000/MWh).

Meridian queries whether problems could arise if tranche 1 controllable load is offered at \$0.01/MWh in situations where a CAN is issued but not a WRN. In those scenarios, the \$0.01/MWh volume will be included in the SPD solves for price responsive forward schedules (PRS) even though, in the absence of a WRN, the controllable load in tranche 1 would not actually be activated.

If a WRN is not subsequently issued, the issue of a CAN alone and the inclusion of controllable load in tranche 1 would in fact distort the PRS and make prices in the forward schedule appear lower than they are likely to be in real time.¹ This could lead to unintended consequences, especially given it is likely to occur at times when supply is tight and market prices should incentivise commitment decisions by fast responding resources such as batteries. The consultation paper states that the proposal would lead to pricing in the PRS more aligned with the likely real time price but that is only correct when a WRN is also issued, and the controlled load in tranche 1 is actually activated.

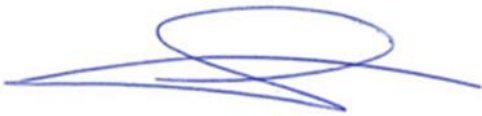
Meridian's preference would be for requested controllable load in difference bids to be priced at an arbitrary price point below instructed controllable load. As an example, this price point could be an estimate of the marginal cost of the controllable load that would be activated following a request. A default value could be set by the Authority or system operator. This would allow for market visibility of the difference without placing controllable load, that may or may not be activated, into baseload tranches distorting the PRS forward price schedule.

¹ All else being equal, real-time prices would likely reflect the PRS price prior to the issue of the CAN and offer of the controlled load in tranche 1.

Meridian’s preferred approach is the same as one of the alternatives considered in the consultation paper. In respect of this alternative approach, the Authority noted that a high price for tranche 1 controllable load would be reflected in the PRS, giving a price signal indicating if requested controllable load would be sufficient to avoid a GEN. However, the Authority expressed some concern that a WRN does not reflect actual scarcity conditions – only the future potential for such a situation and using scarcity-like pricing would increase the discrepancy between the PRS and likely real-time market conditions. While that may be true, market participants that see prices at those set points in the PRS should understand that this is due to controllable load and that real time prices may be closer to what is indicated in the non-response schedule. The alternative preferred by Meridian is in our opinion less likely to have unintended consequences compared to the proposal, given the potential distortions noted above when a CAN is issued but not a WRN.

It may also be helpful for the Authority to clarify whether tranche 1 of controllable load is expected to respond if a WRN is not issued.

Nāku noa, nā



Sam Fleming

Manager, Regulatory and Government Relations

Appendix A: Responses to selected consultation questions

Clarify use and availability of discretionary demand control		
Q2.1.	Do you support the Authority's proposal to permanently implement the intent of the urgent Code amendment, Electricity Industry Participation Code Amendment (Discretionary Demand Control) 2023? Please explain your answer.	Yes. This will ensure the continued benefits of the urgent Code amendments including making the volume, and market impact, of available discretionary demand more visible to the market through the market schedules. In theory this should enable better informed commitment decision by generators and demand side participants.
Q2.2.	Do you support adopting the term controllable load? Please explain your answer.	Yes.
Q2.3.	Do you support the use of the term 'resources' over 'quantity of demand'? Please explain your answer.	Yes.
Q2.4.	Do you support the proposal to introduce two price-bands? Please explain your answer	Yes. However, note the concerns about the pricing of the first band below.
Q2.5.	Do you support pricing requested controllable load at \$0.01/MWh? Please explain your answer.	No, for the reasons given in the body of this submission.
Q2.6.	Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	Meridian prefers one of the alternatives considered by the Authority, namely "Requested controllable load in difference bids priced at an arbitrary price point below instructed controllable load."
Q2.7.	Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	See the body of this submission for discussion of our concerns regarding potential unintended consequences and therefore higher costs associated with the proposal.
Q2.8.	Do you have any comments on the drafting of the proposed amendment?	Not currently.
Feedback on the omnibus format		
Q4.1.	Do you consider the omnibus format should be continued as a way of	This will be a matter of judgement in each case, but Meridian considers it

	consulting on several small but independent separate Code amendments?	could be an efficient format when there is no other clear consultation vehicle for amendments of this nature.
Q4.2.	Do you have any comments on the omnibus format or suggestions to improve the omnibus format?	Given the breadth and diversity of material that may be covered in an omnibus consultation allowing longer timeframes to respond would be appreciated.