

Wholesale Advisory Group Work Plan

20 February 2014

Note: This paper has been prepared for the purpose of the Wholesale Advisory Group. Content should not be interpreted as representing the views or policy of the Electricity Authority.

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1 Recommendation

1.1.1 It is recommended that the Wholesale Advisory Group (WAG):

- **note** upcoming meetings in section 2
- **note** the status of current WAG projects (updates of which are underlined or struck out) in section 3
- **note** the update on projects previously considered by the WAG in section 4
- **note** the update on other relevant Authority projects in section 5.

2 Upcoming meetings

2.1.1 The upcoming meetings confirmed are:

- 20 February
- 24 March
- 1 May
- 5 June.

2.1.2 The meeting on 1 May will be held at the NZ Steel office in Glenbrook. The others will be held in the boardroom of the Electricity Authority office in Wellington.

3 Status of current projects

3.1 Aligning forecast and settlement prices

3.1.1 At the request of the Authority, the WAG is reviewing the feasibility, benefits and costs of measures to improve the alignment between forecast and settlement prices. See the Authority's worksheet (attached) for more detail on the project objective, problem definition, and indicative milestones.

3.1.2 This project has been elevated to item B7 in the Authority's 2013/14 work programme, and as such is another high priority initiative. The work programme anticipates that by the end of June 2014, the WAG will have:

- released a discussion paper, if not completed in 2013/14
- finalised its recommendations on the feasibility/CBA of progressing this initiative.

3.1.3 The WAG has met all its milestones and completed this project. ~~Progress on the project is, as~~ outlined in Table 1.

Table 1 Aligning forecast and settlement prices milestones

Activity	Dates	Status
WAG agreed to add project to its work plan	5 July 2012	Complete
Consideration of an introductory paper	17 October 2012	Complete
Consideration of draft discussion paper	28 November 2012, 31 January 2013, 14 March	Complete

Activity	Dates	Status
	2013, 8 May 2013	
WAG to consider further draft of discussion paper	12 June 2013	Complete
Authority Board given opportunity to comment on draft discussion paper	3 July 2013	Complete
Discussion paper released (assumes no substantive comments received from Board)	9 July 2013	Complete
Submissions due	23 August 2013	Complete
Consider next steps/recommendations	5 September	Complete
Approve recommendation paper	17 October 2013	Complete
Present recommendations to Authority Board	4 December 2013	<u>Complete</u>

3.2 National Market for Frequency Keeping

- 3.2.1 The objective of the national frequency keeping market project is to enable the transfer of frequency keeping between the islands using the HVDC link and to consider market arrangements that would enable co-optimisation with energy and reserve.
- 3.2.2 This project is item B3 in the Authority's 2013/14 work programme, and as such is a high priority initiative. The work programme anticipates that by the end of June 2014:
- Consult on issues and options for national frequency keeping market (timeframe to be determined by investigation).
- 3.2.3 The group has been briefed on the project and issues and is currently considering the scope of its work.
- 3.2.4 ~~Milestones and progress on the project are outlined~~ A list of the projected and completed milestones is provided in Table 2.

Table 2 National Market for Frequency Keeping milestones

Activity	Dates	Status
WAG agreed to add project to its work plan	5 September 2013	Complete
Consideration of a briefing paper	17 October 2013	Complete
Defining the scope of the WAG's involvement	28 November 2013/20 February 2014	
[Further milestones to be determined]		

3.3 UFM - Reserve Arrangements

- 3.3.1 The objective of this project is to review the current instantaneous reserve products and market arrangements (FIR and SIR) to determine if they are still applicable to today's power system, and whether new reserve products and market arrangements could be introduced that could improve procurement efficiencies and security outcomes.
- 3.3.2 The group has been briefed on the project and is awaiting more information to determine the scope of its involvement. It was expected that the result of technical investigations would be available to discuss at this meeting but they are not ready so this is carried over until the next meeting of the group.
- 3.3.3 This project is item D4 in the Authority's 2013/14 work programme, and as such is a high priority initiative. The work programme anticipates that by the end of June 2014:
- Investigation and review will be completed.
- 3.3.4 A list of the projected and completed milestones is provided in Table 2.

Table 3 UFM - Reserve Arrangements milestones

Activity	Dates	Status
WAG agreed to add project to its work plan	5 September 2013	Complete
Consideration of a briefing paper	17 October 2013	Complete
Receive new product definitions	31 January 2014 28 February 2014	In progress
Review new product definitions	20 February 2014 24 March 2014	
Consider draft report	5 June 2014	
Report to Board	31 August 2014	

4 Update on projects previously considered by the WAG

4.1 Settlement and prudential security review

- 4.1.1 Authority staff presented a recommendation to amend the Code to the Board at their meeting on 4 December 2013. The Board agreed to amend the Code and the new arrangements in part 14 come into effect on 24 March 2015. Authority staff are now working with NZX on the project to implement the changes on this date. The next milestone is the release of a consultation paper by the Clearing Manager on the subject. At the same time, the Authority will release a paper on disconnecting defaulting direct purchasers.

4.2 Wholesale market information project

- 4.2.1 A detailed update will be provided to the group in agenda item 3.

4.3 National Instantaneous Reserve Market

- 4.3.1 The Authority has received feasibility and cost estimates for the implementation of a full NIRM from the system operator, which would provide full co-optimisation via SPD.
- 4.3.2 In parallel, the Authority is working closely with the system operator on a potential interim market arrangement to deliver early benefits and gather information that will be valuable to the full implementation. The Authority considers it would be appropriate to consult on any such interim solution, and consultation may include a request for review and input of the WAG.
- 4.3.3 The Authority will also consult on the proposed approach to the full national market implementation, and is likely to seek the WAG's views on this also.
- 4.3.4 The HVDC commissioning project is now complete and the HVDC is fully commissioned and available.

4.4 Pricing in Pivotal Supplier Situations

- 4.4.1 The Authority directed staff to develop a Code amendment proposal using the form recommended by the WAG. Staff have developed a draft proposal that it will test with the WAG before presenting it to the Board, seeking their approval to release it in the form of a draft consultation paper.

5 Update on other relevant Authority projects

- 5.1.1 This section contains a brief update on other Authority projects potentially of interest to the WAG:

- *FTR market and WIBR expansion*

The financial transmission rights (FTR) market continues to trade and expand the hedging horizon, with offered volumes now back to “normal” levels post the HVDC outage period.

FTRs operate alongside the electricity hedge market, to enhance retail competition by encouraging electricity retailers to compete for customers on a nationwide basis. FTRs are open to subsequent on-trading, although only very limited on-trading has taken place to date. The proposed addition of reconfiguration auctions later in 2014 is expected to improve the flexibility and liquidity of FTRs as a hedging tool.

New Zealand's FTR market was designed to be accessible to non-traditional players and be fully transparent – both of which enhance competition. The Authority is pleased with progress to date. The withdrawal of Deutsche Bank from commodity trading worldwide has meant they have ceased trading in the FTR market, which may have negative impacts on the FTR market over time.

Currently, the market offers FTRs at only two nodes, Otahuhu and Benmore, enabling participants to manage inter-island locational price risk. However, the FTR manager has proposed to add three additional points as part of the annual allocation plan review, with trading likely to begin on the extra points in late 2014.