

# Wholesale Advisory Group Work Plan

2 April 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:

- 9 April
- 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 National Market for Frequency Keeping**

3.1.1 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.

3.1.2 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).

3.1.3 The group has been briefed on the project and issues and is currently considering the scope of its work.

3.1.4 At the conclusion of the 9 April WAG meeting, the Secretariat is aiming to provide the group with the first draft of the recommendations paper to be considered in detail at the following WAG meeting on 1 May. The draft recommendations paper includes a full cost benefit analysis and problem definition. A list of the projected and completed milestones is provided in Table 1.

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**Table 1 National Market for Frequency Keeping milestones**

<b>Activity</b>	<b>Dates</b>	<b>Status</b>
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	28 November 2013/20	

Activity	Dates	Status
involvement	February 2014	
WAG recommendations paper approved for forwarding to the Board	1 May 2014	In progress

### 3.2 UFM - Reserve Arrangements

- 3.2.1 The objective of this project is to review the current fast instantaneous reserve products and market arrangements 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.
- 3.2.2 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.
- 3.2.3 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.
- 3.2.4 A list of the projected and completed milestones is provided in Table 2.

**Table 2 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	28 February 2014	In progress
Review new product definitions	<del>24 March 2014</del> 1 May 2014	
Consider draft report	5 June 2014	
Report to Board	31 August 2014	

### 3.3 Hedge market development project

- 3.3.1 The purpose of this project is to examine opportunities to further develop the New Zealand electricity hedge market, in order to maintain its current forward momentum and develop its value to the wholesale and retail markets.

- 3.3.2 This project is item D1 in the Authority's 2013/14 work programme, and as such is an important priority initiative. The work programme anticipates that by the end of June 2014:
- New ASX products: quarterly options, quarterly peak, and monthly base load products (MFM).
  - Market-making for options (MFM).
  - Explore ASX positions offset energy market prudential security requirements (Code amendment).
  - Hedge market survey.
  - Quarterly reporting on progress to be undertaken by the Market Performance team.
- 3.3.3 These objectives were developed to coincide with the Authority's work to improve the hedge market. The Authority is progressing work to achieve these milestones.
- 3.3.4 Since that time, the WAG has picked work in this area, so these very specific milestones do not directly apply to the WAG's work. What is more relevant is the project brief and subsequent updates to the group where we have most recently set out a timeline by which a WAG discussion paper will be released around September 2014, with a view to the group making its final recommendations to Board by the end of the calendar year.
- 3.3.5 The fact finding phase is coming to an end, we can continue to develop metrics, but the work to consider issues and options will begin in earnest in May/June, with a view to releasing a discussion paper during September 2014, and final recommendation to the Board in December.
- 3.3.6 As noted above, the Authority has, and will continue in parallel with the WAG work, progress some matters in relation to the hedge market development. Specifically, the Authority will continue to work with market participants to encourage market making of ASX futures and option products. In particular, the Authority will be in attendance at the 15 April 2014 ASX user group meeting, and will be encouraging market making for peak quarterly futures.
- 3.3.7 A list of the projected and completed milestones is provided in Table 3. The project brief (provided to WAG) split the project into phases: fact finding, assessment of issues and options, develop consultation paper, review submissions and finalise WAG recommendations. The fact finding phase was itself split into three approaches, being a hedge market survey, presentations from interested parties and consideration of metrics.

**Table 3 Hedge market development project milestones**

Activity	Dates	Status
WAG agreed to add project to its work plan	5 September 2013	Complete
<b>Fact finding Phase</b>		
Presentation to WAG – Introduction to the	28 November 2013	Complete

Activity	Dates	Status
hedge market project		
WAG paper – Hedge Market Development Project update and development of metrics	20 February 2014	Complete
Presentations to WAG		
OMF	late 2013	Complete
Pulse	20 February 2014	Complete
EnergyLink	9 April 2014	
Pioneer Generation	9 April 2014	
Payless Energy	9 April 2014	
NZ Windfarms	9 April 2014	
Tuaropaki Trust	9 April 2014	
Cold Storage Nelson	9 April 2014	
ASX	5 June 2014	
<b>Assessment of issues and options</b>	May - August 2014	
<b>Develop discussion paper</b>	August/September 2014	
<b>Consider submissions</b>	October/November 2014	
<b>Finalise WAG recommendations</b>	December 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 working with NZX on the project to implement the changes on this date. The Clearing Manager has published a consultation paper on the proposed methodologies required to implement the amended Code. Submissions on that consultation closed on 1 April and are now being considered by the Clearing Manager. The Authority is preparing and will release a paper on disconnecting defaulting direct purchasers.

## **4.2 Wholesale market information project**

- 4.2.1 The WAG considered a report of the progress of tasks both completed and unfinished at its meeting on 20 February 2014.

## **4.3 National Instantaneous Reserve Market**

- 4.3.1 The Authority received feasibility and cost estimates for the implementation of a full national market for IR 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 may 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 complete and the HVDC is fully commissioned and available. The System Operator is progressing a number of small projects to enable automatic operation of a number of the new HVDC control functions which will enable enhanced reserve sharing

## **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. After considering feedback from the WAG on a draft proposal at its meeting on 20 February, the Board approved the release of a draft consultation paper on 4 March 2014. Submissions are due on 22 April 2014.

## **4.5 Alignment of Forecast and Settlement Prices**

- 4.5.1 The Authority directed staff to prepare a report on improvements to the spot market suggested by existing problems, as recommended by the WAG. This report is underway and is expected to be ready for the Board to consider by the end of June 2014.

## **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*

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 November 2014.