

Dispatchable demand during tight market conditions

Summary of submissions

September 2016

1 Introduction

- 1.1 On 19 January 2016, the Authority published the *Dispatchable demand during tight market conditions* consultation paper (consultation paper).¹ Submissions were due by 1 March 2016.
- 1.2 The proposal set out in the consultation paper was to amend Part 13 of the Electricity Industry Participation Code 2010 (Code) to provide that a dispatchable demand participant must price dispatch bid bands for its dispatch-capable load station (DCLS) at or below \$15,000/MWh or at \$600,000/MWh (that is, above the level of the constraint violation penalties (CVPs)).
- 1.3 This paper provides a summary of the views expressed by submitters in their submissions.

¹ Refer to <https://www.ea.govt.nz/development/work-programme/wholesale/operational-enhancements-to-dispatchable-demand/consultations/#c15753>.

2 Who made a submission?

- 2.1 The Authority received five submissions from the following parties:
- (a) Contact Energy (Contact)
 - (b) Genesis Energy (Genesis)
 - (c) Major Electricity Users' Group (MEUG)
 - (d) Meridian Energy (Meridian)
 - (e) Mighty River Power (MRP).
- 2.2 This summary does not contain the full text of the submissions. However, the submissions are available on the Authority's website.²

² Refer to <https://www.ea.govt.nz/development/work-programme/wholesale/operational-enhancements-to-dispatchable-demand/consultations/#c15753>.

3 What did submitters say?

3.1 All five submissions broadly supported the proposal, although some changes were suggested.

3.2 In terms of the broad support for the proposal, submitters took the following positions:

- (a) Contact supported the Authority's objectives to address the identified potential problems. Contact did not put forward any amendments to the proposal.
- (b) Genesis agreed with the objectives of the proposed amendment. Genesis submitted that the "high standard of trading conduct" requirement (clause 13.5A of the Code) should apply to dispatchable demand participants. The Authority notes that Genesis' suggestion could be implemented in parallel with the proposal, and that Genesis does not disagree with the proposal. Consequently the Authority interprets Genesis' submission as broadly supporting the proposal, but with a suggestion that an additional parallel change also be made.
- (c) Meridian generally agreed with the Authority's proposed amendment, subject to certain relatively minor wording adjustments. Meridian considered that the proposal provides a suitably low-cost method of addressing the identified problems. Meridian also suggested that the Authority further assess applying a high standard of trading conduct requirement to dispatchable demand participants.
- (d) MRP "generally agrees" with the proposal, but submitted that "safe harbour" rules under clause 13.5B of the Code should apply to dispatchable demand participants, and that the part of the proposal that prevents bids above \$15,000 should be removed.³
- (e) MEUG submitted that a "pragmatic solution" to manage unintended consequences of prices during tight market conditions is acceptable, but suggested that the pragmatic solution may be to increase the proposed \$15,000 cap to the greater of the upper range of the estimated Value of Expected Unserved Energy (VEUE) and the upper range of the Value of lost load (VoLL).

3.3 The areas in which submitters suggested changes to the proposal were:

- (a) The high standard of trading conduct provision in clause 13.5A (and the related safe harbour provision in clause 13.5B) should apply to dispatchable

³ This latter suggestion would remove a key element of the proposal. This could call into question whether MRP does in fact "generally agree" with the proposal.

demand or should at least be further assessed (Genesis, Meridian and MRP)

- (b) The \$15,000/MWh cap should be higher or removed (MRP and MEUG)
- (c) The drafting of the proposal should be changed to make it robust to changes in constraint violation penalty (CVP) levels (Meridian)
- (d) The drafting of the proposal should be changed to refer to “must-run load” (Meridian).

3.4 Another suggestion made by submitters (Meridian and MEUG) was that the Authority should conduct a post-implementation review of the dispatchable demand regime.

3.5 These suggestions are explained in more detail in the next section.

3.6 Three submitters (Meridian, MEUG and MRP) gave explicit answers to the seven questions asked in the consultation paper. A summary of those answers is as follows:

- (a) **Question 1:** Do you agree with the Authority’s description of the problems with the existing arrangements?

There was broad agreement from the three submitters with the Authority’s description of the problems with the existing arrangements.

- (b) **Question 2:** Do you agree the problems are of a sufficient magnitude to justify the Authority taking steps to resolve them?

There was broad agreement from the three submitters that the problems are of a sufficient magnitude to justify the Authority taking low-cost steps to resolve them.

- (c) **Question 3:** Do you agree with the objectives of the proposed amendment? If not, why not?

There was broad agreement from the three submitters with the objectives of the proposed amendment.

- (d) **Question 4:** Do you agree the benefits of the proposed amendment outweigh its costs? If not, why not?

There was broad agreement from the three submitters that the benefits of the proposed amendment outweigh its costs.

- (e) **Question 5:** 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.

There was broad agreement from the three submitters that the proposed amendment is preferable to the other options. The exceptions were MEUG’s preference for a bid cap that is higher than \$15,000/MWh and

MRP's preference for no bid cap. These submissions are explained in more detail in the following section. Some submissions suggested that the Authority should have considered extending the "high standard of trading conduct" provisions. This is also explained in more detail in the following section.

- (f) **Question 6:** Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

There was broad agreement from the three submitters that the proposed amendment complies with section 32(1) of the Act.

- (g) **Question 7:** Do you have any comments on the drafting of the proposed amendment?

Meridian proposed some drafting changes set out in its submission. These are explained in the following section.

4 Submitters' suggestions for change

Trading conduct provisions should apply to dispatchable demand (Genesis, Meridian, and MRP)

- 4.1 Clause 13.5A provides that each generator and ancillary service agent must ensure that its conduct in relation to offers and reserve offers is consistent with a high standard of trading conduct. Clause 13.5A does not apply to bids submitted by a dispatchable demand participant. Clause 13.5B provides that a generator complies with clause 13.5A if it meets certain "safe harbour" criteria.
- 4.2 Genesis submitted that the trading conduct requirement was intended to promote behaviour that ensures prices do not increase to inefficiently high levels. The same logic can be applied to dispatchable demand market participants. The Code should be amended to require the same high standard of trading conduct from dispatchable demand participants. This adds credibility to the market, improves consistency, and clearly sets the Authority's expectations for future participants.
- 4.3 MRP made the same points as Genesis.⁴
- 4.4 Meridian questioned why "market conduct type" standards (similar to clauses 13.5A and 5B) were not analysed in the consultation paper and requested that the Authority further assess this type of approach.

The proposed \$15,000/MWh cap should be higher or removed (MRP and MEUG)

- 4.5 MEUG submitted that the Authority should consider changing the proposed cap from \$15,000/MWh to a higher number.
- 4.6 MEUG submitted that dispatchable bids could usefully provide certainty of response even if they have bid prices somewhat above the \$20,000/MWh figure used in the Code for the Value of Expected Unserved Energy (VEUE),⁵ or somewhat above the Value of Lost Load (VoLL) figure of \$17,335/MWh quoted in the consultation paper. If the system operator could dispatch those bids off, it could be more confident of balancing the system compared with if that load was dispatched on (in which case the system operator would be hoping that lower cost voluntary response would emerge). MEUG suggested the cap could be set to the greater of the upper range of the estimated Value of Expected Unserved Energy (VEUE) and the upper range of the Value of lost load (VoLL).
- 4.7 MEUG also noted that there may be potential new entrant dispatchable demand participants that would not enter the market if the cap was \$15,000/MWh but

⁴ MRP submitted that the "safe harbour" rules (clause 13.5B) should apply to dispatchable demand participants, but the point is the same.

⁵ This is used for the purposes of the grid reliability standards.

might enter if the cap was higher. Encouraging new entry would deliver greater benefits. A higher cap also would signal the Authority's intention "to actively continue dispatchable demand as one of many demand side response opportunities for end consumers".

- 4.8 MRP supported the requirement that "must-run" load be offered at \$600,000/MWh, but disagreed with the "discretionary load" cap of \$15,000/MWh. MRP says, "This is mainly because this figure has been set by the Authority on the basis of its assessment of voluntary and involuntary load curtailment. Current or prospective dispatchable demand participants may even feel that potentially being dispatched off at \$15,000/MWh (or whatever the cap might be) is insufficient compensation for the impact on their processes." MRP also notes that VoLL can vary significantly depending on the circumstances and customer.

Drafting should be robust to changes in CVP levels (Meridian)

- 4.9 Meridian submitted that proposed clause 13.13(1)(c) should provide for the Authority to change the \$600,000/MWh figure if CVPs are changed. Meridian also suggested that clause 13.13(1)(c) should provide that for "load that may be dispatched on or off" the \$15,000/MWh cap applies, and for "must-run load" the \$600,000/MWh figure (or its equivalent if CVPs change) should apply.

A post-implementation review may be timely (Meridian and MEUG)

- 4.10 Meridian noted that participation in dispatchable demand remains low, "This may be an opportune time for the Authority to undertake a full review of the dispatchable demand regime to assess whether it is meeting its original objectives".
- 4.11 MEUG noted the Authority's investigation into adopting real-time-pricing (RTP). MEUG expects New Zealand will adopt RTP and notes it will provide an opportunity to make changes to market systems to provide for a full dispatchable demand regime as originally proposed. There may be some interim steps that could be taken towards a full dispatchable demand regime ahead of final decisions on RTP. Those possible interim steps could be uncovered through a post implementation review of the dispatchable demand regime.