

Meeting Date: 7 August 2018

REVIEW OF SPOT MARKET TRADING CONDUCT: DISCUSSION PAPER

MARKET
DEVELOPMENT
ADVISORY
GROUP

DRAFT

[Abstract]

Note: This paper has been prepared for the purpose of consulting on issues in relation to the review of the trading conduct provisions in the Electricity Industry Participation Code 2010. Content should not be interpreted as representing the views or policy of the Electricity Authority.

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- James Flannery
- James Flexman
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- Stu Innes
- Rebecca Osborne
- Bruce Rogers
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- James Tipping

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Executive summary

The Authority has requested the MDAG review the trading conduct provisions

Overview of trading conduct provisions and their introduction

The MDAG has identified several problems with the trading conduct provisions

The MDAG has identified the following options to address the problems

The MDAG's initial preference for addressing the problems

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Process for submissions

How to make a submission

This discussion paper is published by the MDAG, and the MDAG will be responsible for considering submissions received.

Submissions should be received by 5.00pm on xx xxxxx 2018.

If possible, submissions should include responses to the questions the MDAG has included in this discussion paper (as per section xxx).

Electronic submissions are preferred

The MDAG prefers submissions in electronic format (in Microsoft Word).

Submissions should be emailed to mdag@ea.govt.nz with "Review of spot market trading conduct: Discussion paper" in the subject line.

Submissions can be made in hard copy

If you do not wish to send your submission electronically, you must post a hard copy of your submission to one of these addresses:

Submissions MDAG Chair c/- Electricity Authority PO Box 10041 Wellington 6143 Tel: 0-4-460 8860 Fax: 0-4-460 8879	Submissions MDAG Chair c/- Electricity Authority Level 7, ASB Bank Tower 2 Hunter Street Wellington Tel: 0-4-460 8860 Fax: 0-4-460 8879
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Sending a hard copy is not necessary if you have sent your submission electronically.

The Authority will acknowledge receipt of submissions

The Authority, on behalf of the MDAG, will acknowledge receipt of all submissions electronically.

Please contact the Submissions Administrator at the Authority if you do not receive electronic acknowledgement of your submission within two business days.

The MDAG intends to publish all submissions

Please note that the MDAG intends to publish all submissions it receives. This is the usual practice with submissions.

If you consider that we should not publish any part of your submission, please indicate what part, and set out the reasons why you consider we should not publish it.

If you indicate that there is a part of your submission that the MDAG should not publish, we will discuss it with you. We will ask whether you can provide us with a version that we can publish (if you haven't already done this).

Submissions are subject to the Official Information Act 1982

Please note that all submissions we receive, including any parts that we may not have published, can be requested under the Official Information Act 1982 (OIA). This means that we would be required to release them unless good reason exists under the OIA to withhold them.

We will normally consult with you before releasing any material that you had identified should not be published.

Glossary

Act	Electricity Industry Act 2010
Ancillary service agent	Defined in Part 1 of the Code – a person who provides an ancillary service
Code	Electricity Industry Participation Code 2010
Compliance Committee	Sub-committee of the Electricity Authority Board dealing with compliance matters
Collusion	When rival companies within an industry cooperate for their mutual benefit
Economic withdrawal	When the offer applying to a plant is changed so that it is unlikely to be dispatched
FTR	Financial transmission right
HVDC	High voltage direct current – refers to the transmission line between the North and South Islands
Instantaneous reserve	Defined in Part 1 of the Code – an ancillary service comprising 1 or more of the following interruptible load partly loaded spinning reserve tail water depressed reserve
MDAG	Market Development Advisory Group
Offers	Energy or instantaneous reserve offers – defined in Part 1 of the Code
Physical withdrawal	See ‘withdrawal of plant’
Pivotal	Defined in Part 1 of the Code. For the purposes of the project, a supplier is pivotal in a market if, without the supplier’s production, the market can only partially clear, ie some demand is unmet
Regulations	Electricity Industry (Enforcement) Regulations 2010
Reserve	See instantaneous reserve
Spot market	The energy and instantaneous reserve markets in the New Zealand wholesale electricity market
Statutory objective	The objective of the Electricity Authority as set out in section 15 of the Act

WAG Wholesale Advisory Group

Withdrawal of plant When a plant is made unavailable to the market by not being offered.

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Introduction

The Authority requested the MDAG review the trading conduct provisions

Background to the introduction of the trading conduct provisions

Overview of the trading conduct provisions

Role of trading conduct and other related provisions, including undesirable trading situations

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Problem definition

Introduction

General requirement for a 'high standard of trading conduct' considered unclear

[The safe harbours are not available to some plant]

[E.g. Some plant cannot operate in the same harbour, such as not offering very high cost plant for short periods. Note: the group has yet to discuss this issue.]

[The safe harbour may shelter and facilitate behaviour inconsistent with a high standard of trading conduct]

[E.g. a generator that is pivotal is arguably within the safe harbour if its offers do not result in a material increase in the final price at their node, even if its offer would not be consistent with a high standard of trading conduct. Note: The group has yet to discuss this issue.]

[The safe harbour can be difficult to apply in practice]

[Note: The group has yet to discuss this issue.]

Trading conduct provisions only apply to parties making offers

[E.g. the trading conduct provisions do not apply to parties not required to make offers, such as plant below 10-30MW, nor do the trading conduct provisions apply to load.]

Trading conduct provisions do not prevent withdrawal of plant after gate closure by plant not required to make offers

[In particular, plant not required to make offers, ie plant below 10-30MW, is not subject to the trading conduct provisions nor gate closure so is able to be withdrawn after gate closure.]

The safe harbour allows withdrawal of plant and instantaneous reserve for reasons other than bona fide reasons

[In particular, clause 13.5B(1)(a) states that a generator is within the safe harbour if it makes offers in respect of all of its generating capacity that it is *able* to operate in a trading period. Clause 13.5B(3)(a) uses the same wording for instantaneous reserve offers by an ancillary service agent. It could be argued this allows withdrawal of generation or instantaneous reserve for economic reasons.]

Trading conduct provisions do not make clear that where plant is not available, the market should be informed

[E.g. Plant that is available with a notice period but is not on an outage may not have an offer attached to it. Note: other provisions in the Code, including wholesale market information disclosures and offer rules do require that this information is made available, although with some exclusions.]

Trading conduct provisions do not specifically address collusion of offers between generators or providers of instantaneous reserve

[Note: This is illegal under the Commerce Act and would therefore breach clause 13.5 of the Code, which requires that offers must be lawful. However, a party can act as an agent of other parties so could co-ordinate offers.]

Trading conduct provisions do not make clear that offers should reflect the physical underlying capability of the plant

[E.g. ramp rates applied to offers for some plant differ from what the plant is physically capable of or is limited to because of other factors such as resource consents. Note that this is addressed in other provisions in the Code.]

[Application of trading conduct provisions to use of a pivotal position to offset losses elsewhere]

[E.g. use of a pivotal position to remove a price difference between the node at which a generator operates and another node or use of a pivotal position to offset a loss in another market.]

[The trading conduct provisions do not provide guidance on when re-offering is appropriate]

[Note: The group has yet to discuss this issue.]

Options

Introduction

[This section will discuss the options identified and considered for addressing the problems that have been identified. It is suggested the next chapter discusses the MDAG's initial preference for addressing the problems.]

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Initial preference for addressing the problems

Introduction

[This section will set out the MDAG's initial preference for addressing the problems. The options will be assessed against the Authority's statutory objective.]

There may be some value in describing a set of criteria/principles that bridge the gap between the very high level statutory objective and the group's preferences. For example, some principles might be:

- improve understanding (improve certainty, provide clarity)
- are adaptable to changing environment, learnings from real world examples
- are able to be monitored, enforceable
- are unlikely to have negative and/or unintended consequences
- support new entry
- support direct participation in the wholesale market (another way of describing this is to improve confidence in the wholesale market)
- maintain or improve reliability
- support other markets, such as the forward contracting market
- operate harmoniously with other forms/sources of regulation relevant to our market
- are consistent, where appropriate, with regulation in other markets]

Conclusion

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Appendix A: Consolidated list of questions

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