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Electricity Authority

Submitted by email: uts@ea.govt.nz

27 April 2021

Dear UTS Team

RE: Proposed actions to correct 2019 UTS

Thank you for the opportunity to provide feedback on the Electricity Authority's proposed actions to correct the undesirable trading situation that occurred between 3-27 December 2019.

Enel X works with commercial and industrial energy users to develop demand-side flexibility and offer it into wholesale capacity, energy and ancillary services markets worldwide, as well as to network businesses. We have over 50 demand response programs in 12 countries, which involve altering customers' consumption patterns and controlling onsite generation. Enel X has been offering customer load into the instantaneous reserve (IR) market in New Zealand since 2009. Enel X also provides forecasting for regional coincident peak demand and load bidding services for non-conforming nodes subject to the demand-side bidding and forecasting requirements.

This submission provides Enel X's views on matters raised in the issues paper. The key points are:

- We do not support the EA taking any action with respect to IR offers, prices or settlement.
- The paper does not provide any evidence or analysis to indicate that corrections to IR prices and settlement needs to occur to achieve the objectives of this review – that is, to restore the normal operation of the market and restore confidence in the market.
- The proposed corrections to IR prices and settlement will penalise IR providers that were acting rationally in the IR market for the actions of several participants in the energy market. Penalties to correct an undesirable trading situation should be constrained to those who caused it.
- Interventions such as these undermine confidence in the market. This outcome is the reverse of the EA's stated objective. The EA should instead focus on ways to mitigate the potential for such behaviour to occur again and proactively identify and rectify these situations as they arise.

If you have any questions or would like to discuss this submission further, please do not hesitate to contact me.

Regards

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Q15. Should offers to the instantaneous reserves market during the UTS period be corrected? If so, how should instantaneous reserve offers be corrected?

We agree with the EA’s conclusion that IR offer revisions are not required to correct the UTS and restore normal operation of the market.

However, we do not support the EA’s proposal to revise final reserve prices and reserve settlement, for the reasons set out below.

1. There is no evidence that the proposed revisions will achieve the EA’s objectives

The EA’s stated objectives for correcting a UTS are to restore normal operation, and confidence, in the wholesale market.

The EA has not provided any evidence or analysis to indicate that corrections to IR prices and settlement needs to occur to achieve these objectives. Specifically, the EA has not provided any evidence to suggest that the IR market was not operating normally during the UTS, or that actions need to be taken to restore confidence in the IR market. Similarly, there is no evidence to suggest that the proposed revisions to the IR market would restore normal operation or confidence in the energy market.

If the EA is to pursue its proposed approach, it must provide sufficient evidence of the above and be mindful of the consequences set out later in this submission.

In fact, the following comments in the paper seem to support no action being taken with respect to IR prices or settlement:

- “reserve prices were not raised as an issue during the UTS investigation”
- “settlement for instantaneous reserves is two orders of magnitude smaller than settlement of the spot electricity market”
- “sustained instantaneous reserve prices in the South Island during the UTS period were unexceptional”
- “the prices for fast instantaneous reserves have more spikes but are largely unexceptional relative to recent FIR prices.”

As far as we are aware, “normal operation” has long been restored. So, any actions of the EA should focus on restoring confidence in the wholesale market. In our view, this objective is better achieved by taking steps to ensure that the causers of the UTS do not repeat their actions, not by penalising market participants that had nothing to do with it.

2. The proposed revision approach is unlikely to approximate “normal” market operation

A rational IR provider offering in during the 2019 UTS period would have been making market offers in response to prevailing market conditions. If those conditions were different (i.e. if the actions causing the UTS did not occur, or the prices the EA is proposing to apply to that period applied), the rational IR provider would have responded accordingly. The EA’s approach does not take into account how participants’ behaviour might have changed had the market conditions been different.

Given it is impossible to know this, the EA’s proposed revisions to IR prices and settlement are unlikely to replicate “normal” market operation and will therefore create winners and losers. Revisions to approximate normal conditions should only be applied if the benefits of doing so outweigh the costs and other negative consequences. As above, it is not clear that this is the case under the EA’s proposed revisions to IR prices and settlement.

3. The proposed revisions will penalise IR participants for the actions of others in a different market

While the EA states that “the actions to correct are not intended to penalise individual traders”, this is exactly what it does. The EA should not be handing out penalties to market participants for behaving rationally in response to market conditions at the time. If the UTS arose from actions of individual participants, any remedies should be constrained to those individuals and the benefits shared with those who were negatively impacted by the UTS.

Further, while co-optimised, the energy and IR markets are separate markets with a distinct set of participants and market conditions. The proposed revisions to IR prices and settlement will penalise all IR providers for the actions of several participants in the energy market. The EA should not be penalising IR providers for the behaviour of others in a separate market.

If the EA’s proposed revisions are implemented, Enel X, as a provider of IR services using the aggregate capability of multiple interruptible loads, would need to pay the penalty by clawing back the revenue it shared with customers offering the service during the UTS period. If any of those customers offering at the time are no longer customers of Enel X, we would have to absorb this cost ourselves. Alternatively, we might choose to absorb the cost for all customers in order to maintain our strong customer relations. This is a significant cost and, as set out below, presents a significant commercial risk to us and our customers over which we have no control.

4. The proposed actions will undermine, not restore, confidence in the market

Interventions such as these undermine confidence in the market – the reverse of the EA’s stated objective.

The proposed revisions expose market participants to a risk that they have no ability to predict or mitigate. Market participants have no control over the actions of other market participants, they can only respond to market conditions. It is unfair to penalise providers for trading in a market during a time that was later identified to be a UTS period. Doing so increases commercial risks and regulatory uncertainty for market participants and reduces incentives to participate.

Further, applying revisions retrospectively so long after the fact undermines confidence in the market. The EA should instead focus on mitigating the potential for such behaviour to occur again and proactively identifying and rectifying these situations as they arise.