

Submissions

Electricity Authority

PO Box 10041

Wellington 6143

19 April 2021

## **Proposed Action to Correct - UTS Claim 10 Nov 2019 - Submission**

Thank you for the opportunity to submit on the proposed action to correct the 2019 UTS.

No part of this submission is confidential and I am happy for all of it to be published.

The EA is to be congratulated on its proposed approach to correcting the UTS in that it seems to have, mostly, achieved the delicate balance of ensuring benefits flow to end consumers while not overly undermining ability of generators to manage their locational risk by their offer strategy. The only suggestion I have to improve the proposed action is to slightly enhance the long term investment signals by using the offer price cap of \$19.98/MWh rather than the \$13.70/MWh option.

It is difficult to balance productive, allocative and dynamic efficiency in any decision, but because dynamic efficiency will have larger longer term benefits I suggest the EA consider the slightly higher offer cap option. Particularly given the need for significant renewable generation investment in the medium term to meet our climate change objectives.

My response to specific consultation questions is as follows:

Question	Comment
Q1. What, if any, actions should the Authority undertake to address excess spill, system security, and any other consequent effects? How would such actions address the objectives of Part 5 of the Code?	The authority should not take any action to address excess spill, system security or any other consequences. Such actions are likely to be quite complex, costly to investigate and implement, risk unintended consequences for little gain.

10 Hataitai Rd, Wellington 6021

Mobile +64 21 626 851

[www.NWCL.co.nz](http://www.NWCL.co.nz), Email: [Neil.Walbran@NWCL.co.nz](mailto:Neil.Walbran@NWCL.co.nz)

<p>Q2. Do you agree that the Authority should seek to correct the UTS period by resetting the payments made/received by spot market purchasers and generators? (If not, please explain your reasoning.)</p>	<p>Yes I support the proposed approach.</p>
<p>Q3. Do you agree that the Authority should attempt to correct settlement during the UTS period by resetting prices in the electricity market?</p>	<p>Yes I support the proposed approach.</p>
<p>Q4. Do you agree that injection and off-take volumes should remain unchanged in any resettlement?</p>	<p>Yes I support the proposed approach.</p>
<p>Q5. Do you agree that the Authority should attempt to correct the UTS by revising final prices in the electricity market, rather than by an 'off-market' wash-up of spot electricity payments to and from the clearing manager?</p>	<p>Yes I support the proposed approach. The alternative, "off-market" wash-up of payments would be overly complex, and add little value.</p>
<p>Q6. If offer prices and offer volumes are reset, which hydro generating stations should have offers reset? (Please answer yes/no, with any additional supporting commentary.)</p> <ul style="list-style-type: none"> <li>a. Aviemore?</li> <li>b. Benmore?</li> <li>c. Clyde?</li> <li>d. Manapōuri?</li> <li>e. Ōhau A, B, C?</li> <li>f. Roxburgh?</li> <li>g. Tekapo A, B?</li> <li>h. Waitaki?</li> <li>i. Other stations?</li> </ul>	<p>I support the proposed approach but can add no value to the discussion on which stations should have their offers reset.</p>
<p>Q7. If offer prices and volumes are reset, do you agree that North Island offer prices and offer volumes should remain the same as originally submitted? (If not, please identify any alternative actions.)</p>	<p>Yes I agree that North Island offer prices and volumes should remain the same as originally submitted. I think this is important to both ensure consumers get the benefit of the proposed correction and also to avoid a false locational price signal (if an excess NI - SI price differential should arise from the correction).</p>
<p>Q8. Do you agree that resetting offer prices and volumes by imposing a cap is the preferred action to correct the UTS? If not, please identify preferred alternatives.</p>	<p>Yes I support the proposed action. The main appeal is simplicity to implement. I think it is important that now having decided to correct the UTS that the correction is implemented as simply and quickly as reasonably practical. A swift resolution will restore market confidence.</p>
<p>Q9. If revisions to offer prices are to vary through time or across generating stations, how should the offer prices be determined?</p>	<p>I favour a simple solution, for the reasons outlined above. Vary offers by time or across stations sounds unnecessarily complex, with little or no benefit and some risk.</p>
<p>Q10. Do you consider that final prices should be reset directly? If so, how should they be calibrated?</p>	<p>I do not favour resetting prices directly and prefer the proposed method as it would be more consistent with operating conditions, including</p>

	transmission constraints that existed at the time.
Q11. Do you agree that the aggregate offer volumes of each generating station should equal the aggregate amount offered by that station during the UTS period? Please describe any preferred alternatives.	Yes I support aggregate offer volumes of each generating station should equal the aggregate amount offered by that station during the UTS period. Again this seems simplest.
Q12. Which of these mechanisms in paragraph 5.41(a) – (e), if any, should be used to calibrate 'corrected' electricity offer prices? (Please identify any other preferred alternatives.)	I prefer option (c), historical spot prices during similar hydrological conditions. I think this best preserves the long run dynamic efficiency component of spot prices. As outlined above I think it is important, particularly at this time, to consider investment signals for new renewable generation.
Q13. Do you agree that generators, other than those with 'reset offers', that were dispatched to generate electricity at offer prices above the reset final prices should be treated as constrained on? (If not, please identify preferred alternatives.)	Yes I agree that generators, other than those with 'reset offers', that were dispatched to generate electricity at offer prices above the reset final prices should be treated as constrained on. To do anything else would be 'unfair' to those generators, undermine market confidence, and undermine confidence of those investing in new generation.
Q14. Do you agree with the Authority's proposal not to revise constrained off payments, associated with frequency keeping? (If not, please explain and identify any preferred alternatives.)	I agree with the Authority's proposal not to revise constrained off payments, associated with frequency keeping. Mainly because it is simplest and the amounts at stake don't seem material enough to warrant any additional complexity.

Q15. Should offers to the instantaneous reserves market during the UTS period be corrected? If so, how should instantaneous reserve offers be corrected?	I agree with the Authority's proposal to not correct reserve offers. This seems simplest.
Q16. Do you agree with the proposed approach to treatment of derivatives for the purposes of correcting the UTS? Please explain your answer.	I agree with the Authority's proposed approach to let derivative markets adjust according to their terms and conditions. The alternative, of reaching into other markets, has high risks and little to gain.
Q17. Are there any additional, feasible and lawful actions that the Authority should or could undertake in relation to derivatives markets?	No suggestions.
Q18. How should the Authority use its powers under Part 5 in relation to LCE payments?	The Authorities proposal, of requiring resettlement of LCE payments, seems reasonable.
Q19. Should the Authority use its powers under Part 5 of the Code to direct retailers to reimburse consumers that had contracts on variable price terms? What, if any, action should the Authority take in relation to variable price contracts?	Yes I support the Authority using its powers to direct retailers to reimburse consumers on variable price terms. I think it is important that such consumers receive a benefit from the UTS price recalculation.
Q20. How should any resettlement arising from the actions to correct the UTS be implemented?	The proposed approach seems reasonable.
Q21. If there is a resettlement, what window of time after invoicing should be allowed for traders to meet their obligations?	Although a reasonable time window should be allowed I suggest this should be kept as short as practical, as the market needs to 'move on' from this action. I suggest a 3 month window would be reasonable.
Q22. Please provide feedback on the operational implementation of the proposed actions to correct the UTS, including the interest rate that should be used to scale payments.	Again I suggest keeping the time to implement settlement as short as practical. I suggest the historic bank bill rate for the period in question would be a reasonable starting point for the interest rate to be used.

Regards

Neil Walbran

Managing Director NWCL