

MINUTES

Meeting number: 33

Venue: By Zoom

Time and date: 10:00am, Wednesday, 17 November 2021

Attendees

- Tony Baldwin (Chair)
- Paul Baker
- Matthew Cleland (left 2:58pm)
- Stu Innes
- Dr Andrew Kerr (joined 10:08am)
- Tony Oosten (left 3:30pm, re-joined 3:55pm)
- Rebecca Osborne (left 3:30pm)
- Ann Whitfield (left 2:20pm, re-joined 3:55pm)
- Fiona Wiseman
- Al Yates (joined 10:23am, left 3:50pm)
- Conrad Edwards (Observer, MBIE)
- Dr Ramu Naidoo (Observer, System Operator)

In attendance

- Dr James Tipping (Chief Strategy Officer, Electricity Authority)
- Alistair Dixon (Principal Advisor Market Policy, Electricity Authority)
- Dr Stephen Batstone (independent consultant)
- Rachel Holden (Concept Consulting, left 3:00pm)
- James Innes (Concept Consulting)
- David Hunt (Concept Consulting, items 2-11)
- John Culy (JC2 Consulting, items 2-7)
- Dr Grant Read (EGR Consulting, item 5)

The meeting opened at 10:03am.

1. Project update

The Chair provided an update on project progress. He noted that the contracts market stream of work was running late, but all other streams of work were roughly on track.

The Chair noted that an additional MDAG meeting had been scheduled on 2 December to go through project material.

The group discussed how the modelling was going to be presented in the Issues Paper. The group considered that the context in which the modelling was presented was important. A member noted it would be good to bring out more of “what do we need to believe” (underlying assumptions) for the outlook to hold.

The Chair noted that the Secretariat had nearly completed its discussions with stakeholders on the modelling. He noted that stakeholders had said the meetings were very useful as many of them had been looking at the same issues. The Secretariat also found the stakeholder meetings very useful.

Meeting administration

A member requested that the minutes for meeting #32 be amended to note that the compressed timeframe for the project meant there was a risk there wouldn't be time for different papers to adequately inform each other, potentially leaving some issues untouched.

The Group agreed to publish the minutes from meeting #32 once they had been amended to reflect the potential implications of the compressed timeframe.

Action 33.1 – Secretariat to amend minutes on agenda item 6 from meeting #32 to note that the compressed timeframe meant there was a risk there wouldn't be time for different papers to adequately inform each other, potentially leaving some issues untouched.

2. Spot price modelling (discussion with Concept Consulting and JC2 Consulting)

John Culy and David Hunt presented further results from Concept-JC2's spot price modelling.

The Group discussed whether some of the assumptions in the model were appropriate, including demand response capability, the system margin, use of green peakers, and interest costs.

The meeting broke for 10 minutes part way through this item.

3. Peer review of spot price modelling – initial feedback

This agenda item was covered in agenda item 2.

4. Stakeholder consultation on spot price modelling – initial feedback

This agenda item was covered briefly in agenda item 1.

5. Spot price modelling – water values (discussion with Grant Read)

The Chair welcomed Grant Read to the meeting. Members and the Secretariat introduced themselves to Grant.

Grant presented his slides on opportunity costing.

A member asked whether we would need to change our view on hydro generation in the future given it will fall as proportion of total generation. Grant responded that it doesn't change how you assess use of hydro generation, but the relative valuation of storage versus energy etc will change.

The meeting broke for 30 minutes for lunch.

Members agreed that they would email any further questions for Grant to the Secretariat. Grant would reflect any responses to questions in his paper.

6. Demand-side flexibility (discussion with Stephen Batstone)

Stephen Batstone presented some slides on demand-side flexibility. Stephen noted that he had talked to Dr Gavin Bell, Chief Executive of Optimeering AS, on the impact of Electric Vehicle uptake on the Nordpool.

The Group discussed the increasing importance of demand-side flexibility in a 100% renewable electricity world.

The Group discussed the Nordpool example and noted:

- the role of rules (eg, mandatory smart EV chargers) of getting more demand-side flexibility
- that many consumers in the Nordpool are on spot prices, which may not work in New Zealand given we have more short-term volatility.

7. Risk management transition (discussion with Stephen Batstone)

Stephen Batstone presented a slide pack on the risk management transition.

The Group discussed the impact of margin call requirements on ASX trading and discussed whether it would make a difference if the electricity futures market was on the NZX. A member noted that margin calls are big even for the large gentailers. A member noted that barriers to entry are a key issue.

The Group discussed the potential impact of commercialising market making. The Group considered that it could improve visibility.

The meeting broke for 10 minutes.

A member considered that independent generators are really struggling to get into the PPA market. The Group discussed whether it would be useful to talk to some independent generators. Stephen noted that the Secretariat hoped some of Sapere's work on contract markets would cover this, but that he would reach out to stakeholders to incorporate an independent generator perspective.

8. Contracts market - update

This agenda item was covered briefly in agenda item 7.

9. Issues paper (discussion with Concept Consulting)

The Chair provided an update on the status of the Issues Paper. The Chair asked members for comments.

The Group discussed some issues that members considered needed some focus in the Issues Paper including:

- competition and new entry issues
- real-time co-ordination issues in a 100% renewable electricity market
- the impact on flexibility of fossil fuelled thermals leaving and the role of demand-side flexibility
- the importance of ancillary services in a 100% renewable electricity market
- the potential exacerbation of market power held by some generators in the move to a 100% renewable electricity market.

A member considered that Enel X will have further valuable input on the role of demand-side flexibility.

Action 33.2 – Secretariat to ensure that the notes from the initial stakeholder engagement with Enel X and a link to Enel X's earlier presentation to IPAG are distributed to members.

A member noted that it was important to present a range of results to show that a range of sensitivities and cases had been considered.

The Chair noted that the next step was to fill out the Issues Paper. The Issues Paper would include some key action points, but the options identification and analysis would be focus of the next stage in the process.

10. Next steps

The Secretariat noted that MDAG had a slot at the Authority Board meeting on 7 December. This was a chance to update the Board on the substance of the project. Decisions on what material to give the Board and who will present would be made before the next MDAG meeting on 2 December.

The Chair and secretariat would make the necessary arrangements.

The meeting discussed the timing of future MDAG meetings.

Action 33.3 – Secretariat to circulate suggested dates for future MDAG meetings.

11. Other business

With a view to ensuring that expertise of the group is fully leveraged, the Chair invited members to contact the secretariat directly with any questions or inputs they wish to contribute.

The meeting closed at 4:14pm.