

3 May 2022

Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: uts.2021@ea.govt.nz

Dear UTS team,

Re: Preliminary decision on 9 August 2021 claim of an undesirable trading situation-Supplementary consultation

Pioneer Energy (Pioneer) welcomes the opportunity to make this submission on the Electricity Authority's (Authority's) supplementary consultation regarding the 9 August 2021 UTS claim.

Pioneer notes the System Operator's issuance of an Island Shortage Situation notice was a breach of the Code. The issuance of an Island Shortage Situation notice is a prerequisite for the Pricing Manager to apply its discretion (following clauses 13.135A(3) and (4)) to invoke the scarcity pricing regime.

Pioneer submits it is not appropriate for the scarcity pricing regime to apply based on an incorrect interpretation (that is a breach) of the Code.

However, in our view this event provides important learnings about the application of the scarcity pricing regime. There was clearly a shortfall in generation volumes over the four trading periods during peak demand on 9 August.

We query whether the requirement that the System Operator "*must instruct connected asset owners and grid owners (as the case may be) in accordance with the agreed process in subclause (19) to electrically disconnect demand*" is too high a threshold when the objective of the scarcity pricing regime is to provide signals to owners / operators of peaking generation plant to be available and generate in periods of generation shortfalls.

The Authority's decision paper following a review of the scarcity pricing regime in 2016/17 states:

*"The scarcity pricing regime is intended to give investors in last-resort generation plant and demand response capability confidence that emergency load shedding will not undermine the business case for investing in those resources."*¹

¹ Paragraph 1.2 <https://www.ea.govt.nz/development/work-programme/operational-efficiencies/review-of-scarcity-pricing/development/decision-paper-summary-flowchart/>

The reference to “*undermine the business case for investing in those resources*” means as demand declines as requested by the System Operator spot prices do not decline making operation of peak generation uneconomic.

In the same decision paper the Authority describes the scarcity pricing regime in the first paragraph of the executive summary as:

“The scarcity pricing regime is set out in Parts 8 and 13 of the Electricity Industry Participation Code 2010 (Code). Under the regime, if an electricity supply emergency causes forced power cuts (typically referred to as emergency load shedding) in one or both islands, the system operator notifies the pricing manager, triggering the scarcity pricing regime.”

Emergency load shedding is not a defined term – is emergency load shedding a request to reduce demand or electrical disconnection or both? ²

What triggers application of the scarcity pricing regime?

In trying to understand the factors that trigger the scarcity pricing regime, we found the Code provisions confusing and potentially inconsistent.

The definition of a grid emergency is linked to the System Operator issuing a notice that its ability to comply with its principal performance obligations is at risk or compromised.

grid emergency means a situation where—

- (a) in the reasonable opinion of the **system operator**, 1 or more of the events set out in clause 5(1) of **Technical Code B** of Schedule 8.3 has occurred, or is reasonably expected to occur and urgent action is required of the **system operator** or **participants** to alleviate the situation; or
- (b) independent action (as set out in clause 9 of **Technical Code B** of Schedule 8.3) is required of a **participant** to alleviate the situation

Clause 5(1) of Technical Code B of Schedule 8.3:

5 Formal notices and responses

- (1) The **system operator** must issue a notice either orally or in writing to relevant **participants** whenever, or as soon as practicable after, any of the following events has occurred:
 - (a) the ability of the **system operator** to plan to comply, and to comply, with the **principal performance obligations** is at risk or is compromised (as set out in the **policy statement**):

Clause 6(1) of Technical Code B Schedule 8.3 (copied below) describes all the actions that the System Operator must take to address a **grid emergency** if there is insufficient generation, in order of priority. This includes:

“(b) request that a purchaser or connected asset owner reduce demand

(d) require the electrical disconnection of demand ... “

² The Emergency Management Plan’s only reference to load shedding is in relation to “obligations for some asset owners to provide automatic under-frequency load shedding” Clause 3.4
<https://www.ea.govt.nz/assets/dms-assets/20/20804Emergency-Management-Policy-2016.pdf>

Clause 5(1A) of Technical Code B Schedule 8.3 is not referred to in the definition of a grid emergency but the action clause 5(1A) refers to only happens when the System Operator is dealing with a grid emergency when there is insufficient generation.

Clause 5(1A) of Technical Code B Schedule 8.3:

(1A) The **system operator** must issue a notice in writing to all **participants** whenever, or as soon as practicable after, under clause 6, the **system operator** has issued, amended, or revoked an **island** wide instruction to **electrically disconnect demand**.

Further, clause 5(1A) of Technical Code B Schedule 8.3 describes a notice issued by the System Operator but the name of this notice is revealed only in the Definitions part of the Code for use in Part 13 of the Code (and used by the Pricing Manager) – see extracts of the Code in the Appendix.

Is the threshold of ‘electrically disconnect’ too high?

When dealing with a grid emergency due to a generation shortfall we note that after requesting a reduction in demand the System Operator is then required to ask the Grid Owner to reconfigure the grid before requiring electrical disconnection of demand (clause 6(1) of Technical Code B Schedule 8.3).

‘Electrically disconnect’ is a defined term and means “*to operate a device so that electricity is unable to flow, including through a point of connection*”.

It would be worth understanding if “electrically disconnect” has ever been implemented, the circumstances when this happened and how those circumstances compare with the shortfall of generation volumes on 9 August.

This analysis of prior electrical disconnection instructions will help with reviewing if the current triggers for application of the scarcity pricing regime result in the right signals for investment in last-resort generation.

Resetting prices for 9 August

If a UTS is declared for 9 August and/or scarcity pricing does not apply and the prices must reset, Pioneer believes the approach to resetting prices should be principles based.

We reiterate our submission in relation to the 2019 UTS decision and price reset:

“Pioneer submits that the Code obliges the Authority to attempt to correct an UTS. Pioneer does not believe that participants can have confidence in the entire wholesale market when “practical impediments” mean a large part of the market is not subject to correction when it has been determined a UTS occurred. Not to correct the derivatives market leaves prices in one part of the wholesale market determined by a situation where there was reduced competition and trading behaviour which has been determined has negatively impacted the integrity of the market (ie a UTS occurred).

Pioneer believes the approach to actions to correct the UTS should be principles based. The Authority’s proposal to exclude derivatives is not consistent with a principles-based approach.

The Authority’s remedy must be balanced / equitable. It is not appropriate for a participant to incur lower revenue on spot sales due to the reset but benefit from settlement of derivatives at the escalated prices that the Authority has proven to have occurred during a UTS (ie consistent with market power and reduced competition in generation).”

We would welcome the opportunity to discuss this submission with you in more detail.

Yours truly



Fraser Jonker
Chief Executive

Appendix: Relevant extracts from the Code – for reference

Definitions:

island scarcity pricing situation means a situation determined to be an island scarcity pricing situation by the **pricing manager** under clause 13.135A(3)

Clause 1.1(1) **island scarcity pricing situation**: inserted, on 1 June 2013, by clause 4(a) of the Electricity Industry Participation (Scarcity Pricing) Code Amendment 2011.

island shortage situation means a situation specified in a notice to be an **island** wide shortage by the **system operator** under clause 5(1A) of **Technical Code B** of Schedule 8.3

Clause 6 of Technical Code B Schedule 8.3

6 Actions to be taken by the system operator in a grid emergency

- (1) If insufficient generation and **frequency keeping** gives rise to a **grid emergency**, the **system operator** may, having regard to the priority below, if practicable, and regardless of whether a **formal notice** has been issued, do 1 or more of the following:
 - (a) request that a **generator** varies its **offer** and **dispatch** the **generator** in accordance with that **offer**, to ensure there is sufficient generation and **frequency keeping**;
 - (b) request that a **purchaser** or a **connected asset owner** reduce **demand**;
 - (c) require a **grid owner** to reconfigure the **grid**;
 - (d) require the **electrical disconnection** of **demand** in accordance with clause 7(20);
 - (e) take any other reasonable action to alleviate the **grid emergency**.

Clause 7(19) and 7(20) about electrical disconnection:

- (19) Each **connected asset owner** must maintain an up-to-date process for the **electrical disconnection** of **demand** for **points of connection**, including the specification of the **participant** who will effect the **electrical disconnection** of **demand**. The **connected asset owner** must obtain agreement for the process from the **system operator** and each **grid owner** (such agreement not to be unreasonably withheld). Each **connected asset owner** must advise the **system operator** of the agreed process in addition to any changes to a process previously advised.
- (20) If the **system operator** requires the **electrical disconnection** of **demand** in accordance with this **Technical Code**, the **system operator** must instruct **connected asset owners** and **grid owners** (as the case may be) in accordance with the agreed process in subclause (19) to **electrically disconnect demand** for the relevant **point of connection**. If the **system operator** and a **connected asset owner** or **grid owner** (as the case may be) have not agreed on a process for **electrical disconnection** of **demand** for a **point of connection**, the **system operator** must instruct **grid owners** to **electrically disconnect demand** directly at the relevant **point of connection**. To the extent practicable, the **system operator** must use reasonable endeavours to ensure equity between **connected asset owners** when instructing the **electrical disconnection** of **demand**.