

Wholesale Market Advisory Group

17 June 2004

**Mighty River Power
Level 19
HSBC Building
1 Queen Street
Auckland**

Members Present

Bill Heaps (Chair)
Doug Goodwin
Graeme Everett
Therese Thorn
Bruce Mason
Stephen Cross
Dean Carroll

Also in Attendance

Tim Street (Senior Advisor)
Bronwyn Ward
Karen Smith

Introduction

The meeting opened at 10.20 am.

1. Apologies and Leave

No apologies were received.

Dean Carroll requested permission to leave today's meeting early due to other commitments. Leave was granted.

2. Minutes of the Last Meeting

The Wholesale Market Advisory Group (WMAG) considered the minutes of the 20 May 2004 meeting.

It was agreed to amend the minutes as follows:

- Add page numbers;
- Leave: Amend comment to "No leave was requested for the next meeting";
- Minutes of the last meeting: Change the seconder from Everett to Thorn;
- Policies and Procedures for the use of Mixed Constraints in SPD: Item 7. Amend as follows:
"The members discussed the above, noted the issues and agreed that no further action is required. It was agreed to amend the comment next to the recommended action as follows: "Should the introduction of a regionalised reserve market occur in the future, this will be an added benefit."

Minutes

Subject to the above amendments, the WMAG accepted the minutes of the 20 May 2004 meeting as a true and accurate record.

(Cross/Mason)

Action Point **The Market Administrator** to amend the minutes of the 20 May 2004 WMAG meeting.

3. Matters Arising

The WMAG considered the list of action points.

Action Point 1 – Workplan

The Market Administrator noted that the fuel resource information disclosure workplan item is currently being considered by the Commission's Security of Supply workstream. This item will remain on hold for the WMAG until the output from the Security of Supply workstream is available. The Market Administrator will remove the fuel information disclosure item from the WMAG's July agenda.

Action Point 3 – Workplan

The Market Administrator noted that no information regarding Transpower's intended SPD upgrade had been received. Doug Goodwin confirmed that work is underway at Transpower and they are aiming to get the project started this calendar year. However, he expressed concern at the wording of this action and clarified that there is, in fact, no planned upgrade to SPD. The intention is to "replace existing systems within the existing contract". The WMAG discussed the possibility of incorporating changes to SPD (coming out of workstreams that are underway) during the change from the old version to a new one in order to save money. The WMAG agreed that a list of issues should be compiled and forwarded to the system operator for comment as to whether each item would be affected by the replacement of the SPD system, and whether there would be any sequencing issues with development items. Development items could then be proposed to the Commission to be incorporated into the WMAG workplan. It was agreed that the Senior Advisor should do this as it falls across all Advisory Groups.

Action Point 5 – Revision of SPD

This action was discussed under action point 3, above.

Action Point 6 – Ad hoc Group

The Market Administrator noted that the names of the members of the Constraints Issues Group (CIG) have been published on the Commission's website. The Senior Advisor agreed to forward this list of names and the CIG Terms of Reference to the WMAG.

Action Point 7 – Ad hoc Group

The Market Administrator noted that this action point was complete. The WMAG agreed to discuss this item further under agenda item 4.

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Action Point 9 – Mixed Constraints in SPD

The Market Administrator noted that this action on the Senior Advisor was outstanding. This relates to correcting a typographical error in the system operator service provider agreement.

Action Point 10 – HVDC Policies and Procedures

The Senior Advisor confirmed that this paper was noted by the Board this week.

Action Point 11 – Publication of HVDC Arc Flow Indications

The Senior Advisor noted that the Board had requested a legal opinion as to whether there were significant competition issues involved with this rule change. This issue is discussed further under agenda item 5.

Action Point 15 – Capacity Reserves

The Market Administrator noted that this paper has been approved by the Electricity Commission Board and is ready to be released for consultation. It was queried whether these rule changes should be considered urgent given that a demand intertrip is being considered as a potential solution to the problems facing the upper South Island. The Chair clarified that this was actually an under voltage trip rather like the automatic under frequency load shedding system which already exists. It was not considered that the use of the intertrip would breach the rules. The Market Administrator noted that several intertrips and ramp-ups or ramp-backs were already in place around the country, as the rules allow for fixed quantity capacity reserves. The new set of rules will allow for variable quantity capacity reserves. The capacity reserves rule change will also provide more transparency regarding the determination of security constraints.

All other action items were completed or are on today's agenda.

Action Points

- **The Market Administrator** to remove the fuel information disclosure item from the WMAG's July agenda.
 - **The Senior Advisor** to compile a list of issues to be forwarded to the system operator for comment as to whether each item would be affected by the replacement of the SPD system, and whether there would be any sequencing issues with development items.
 - **The Senior Advisor** to forward the list of CIG members and Terms of Reference to the WMAG.
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4. Correspondence

The WMAG considered the following items of correspondence:

For Action

1. A letter from Contact Energy Limited to the Chair of the Electricity Commission dated 4 June 2004 regarding a proposal for rule change. The letter proposes an amendment to the EGRs (Part G, Section V, Rule 3.2.2) to ensure that redundant data is not supplied or embedded generation quantities double-counted.

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The Senior Advisor noted that this rule is currently being amended and will be included in a package of minor rule changes, which will be provided to the Commission next week. The WMAG discussed the letter and no issues were raised against the proposal. One member queried whether this rule affects the information going to the Reconciliation Manager. The Market Administrator was asked to investigate and report back to Senior Advisor as soon as possible.

For Noting

2. A letter from the Chair of WMAG to the Chair of the Commission dated 3 June 2004 regarding the WMAG's concerns that they were not approached about the set-up of the group to deal with work coming out of the undesirable trading situation. The letter noted that the WMAG does not want to exist merely as a 'rubber stamping' exercise and asked for feedback on what part the WMAG will play when such situations occur again. **Noted.**

The WMAG agreed to discuss this further under agenda item 4.

3. A letter from Doug Goodwin, Transpower to the Chair of WMAG dated 19 May 2004 thanking the WMAG for allowing him a leave of absence for the meeting held on 20 May 2004. The letter also outlined comments on the papers to be presented at the 20 May 2004 meeting. **Noted.**

Doug Goodwin offered his apologies that, due to internet delays, his letter had arrived too late to be considered at the meeting on 20 May 2004, but noted that most of his points had been raised at the meeting anyway.

Action Point	The Market Administrator to investigate whether Part G, Section V, Rule 3.2.2 affects the information going to the Reconciliation Manager and report back to Senior Advisor.
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5. Update on Constraints Issues Group

The Chair outlined his discussions with Roy Hemmingway and Mervyn English regarding the set up of the CIG. The Commission did not intend to undermine the WMAG in setting up the Group, but were responding to the situation in Tauranga. The Commission is aware of WMAG's concerns and in future will consider forwarding such issues to the WMAG. It is expected that there will be an interface between the WMAG and the CIG, as the Chair and two members are on both groups, and the output of the CIG will be considered by the WMAG.

The CIG have a Terms of Reference, which has been published on the Commission's website. The aim is to establish a process for resolving a set of issues within the next two months, which will be challenging given the technical and diverse range of issues to be addressed. An outline of the process is as follows:

1. Define issues clearly – there were initially around 17 issues (arising from correspondence to the Commission) to be addressed. This has been reduced to about 10 issues and the list is still being refined.
2. Develop an action plan for each issue – the likely deliverable from the action plan will be a working issues document.

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3. Make recommendations for each issue – these will come out of the issues document. These are expected by mid-August, though some workstreams may be commenced prior to that time.

It is not anticipated that the CIG will follow all issues through to the end. The recommendations will be handed over to the Commission and will then be distributed to the appropriate Advisory Groups for completion.

Once the issues table has been revised, it will be circulated to WMAG for their information.

Action Point **The Market Administrator** to circulate the CIG's revised issues table to the WMAG for their information.

6. Proposed Change to the Prudential Security Calculation

The Market Administrator briefly outlined this paper based on a rule change proposal by Trustpower Ltd to the NZEM last year. In particular, the definition of 'high price period' was highlighted and the WMAG was invited to comment.

The WMAG considered the proposed 7-day buffer for prudential security requirements. Concern was raised that this would not be long enough for appropriate action to be taken after a default, and that a longer buffer period should be considered. The Market Administrator reiterated that the proposed changes would only be effective during high price periods. However, it was noted that at times of high prices, the risk to generators increases very rapidly and this is the time that prudential security is needed the most. It was recognised that a very long buffer period would be required if it was determined that it should be based on the time it would take to address the outcomes of a default of a major retailer.

The WMAG discussed hedge contracts and how these can be used for prudential security requirements. It was noted that there is a mechanism in place for lodging hedge settlement agreements with the Clearing Manager but:

- These must be approved by the Board before being lodged as security; and
- Both parties to the contract need to agree to it being lodged, and this could be considered as part of the contract negotiation.

If a party feels that its request to have a hedge contract lodged as security has been unfairly rejected by the other party to the hedge, then the aggrieved party can raise this issue with the Electricity Commission.

The proposed rule change was considered by the WMAG in terms of the materiality of the issue for purchasers. They recognised the trade-off between reducing barriers to entry for new retailers and preventing retailers in a poor financial position from entering the market. It was noted that retailer insolvency is a very real issue for the industry.

The WMAG agreed that the objective of any rule change proposal should be to achieve a balance between what is reasonable to generators in terms of risk and what is possible for retailers in terms of cashflow.

The WMAG:

- Noted the proposal to amend the rules for the level of prudential security lodged during periods of high prices;

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- Noted that the Clearing Manager has estimated that the cost of system changes will be approximately \$30,000;
- Agreed that a cost-benefit analysis considering several scenarios should be undertaken to clarify the magnitude of the issue for purchasers and to consider other options for the buffer period. The analysis should consider total cashflow impact for retailers (i.e. cleared funds for payment of invoice plus prudential requirements as is required on day 19 of the month). One method to measure risk is to base this on the cost of procuring a letter of credit or bank guarantee.

The impact of using time weighted prices versus volume weighted prices should be assessed in terms of defining high price periods. 2001 or 2003 prices / settlement amounts could be used in the analysis;

- Requested that the Clearing Manager clarify concerns (including costs) in relation to changing the Prudential Security calculation across the board, rather than changing the calculation based on a high price trigger. This information will be incorporated into the cost-benefit analysis for the proposed rule change to the Prudential Security calculation; and
- Requested that the Market Administrator review work to date on the effect of a purchaser defaulting and provide a summary to be considered at the August WMAG meeting. This should include the perspective of generators as well as retailers and industrial consumers. It should provide a view of the risks and how they could be managed, and include a review of the actions that would be undertaken in the event of a default including timing of actions.

Dean Carroll left the meeting at 11.40am.

Action Points

- **The Market Administrator** to undertake a detailed cost-benefit analysis for the proposed rule change to the Prudential Security calculation.
 - **The Market Administrator** to provide a summary paper on the effect of a purchaser defaulting, including timing impacts, risks for generators, retailers and industrial consumers and how to manage these risks.
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7. Publication of HVDC Subtractor Values

The Market Administrator gave a brief description of this rule change proposal. The HVDC subtractor values (risk offsets) define the ability of each of the HVDC poles to be run at a higher power flow, over a short term, should the other DC pole trip, or the ramping ability of the poles. The publication of this information would enable Meridian to operate Benmore more efficiently, which will benefit the economy as a whole.

The Senior Advisor outlined the Board's views on the publication of the HVDC arc flow indications paper, to which the risk offsets are closely related. The Board's main concerns were regarding the competition issues, which may arise with the publication of this information. The Board has asked for an independent legal review of the competition issues associated with the HVDC arc flow indications proposal.

The WMAG agreed that efficiencies could be gained at Benmore through the publication of risk offset information and agreed that this rule change furthers the Government Policy Objectives for Electricity. The WMAG discussed the possible competition issues of the proposal.

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The WMAG agreed that the issues surrounding the publication of the HVDC arc flow indications and risk offset information are closely related and these proposals should be considered together by the legal reviewers. The WMAG requested that the Market Administrator prepare a paper combining these proposals, which can then be provided to the legal reviewer. The paper should also:

- Include a comment about competition issues, and note the WMAG's view that provision of this information would be to all participants, and would not advantage Meridian over other participants;
- Note clear benefits of the proposal in terms of dispatch outcomes;
- Note that Meridian already has some ability to control HVDC flows, reiterate the views of Grant Read in his review of the model formulation (2003) regarding Meridian's ability to control the HVDC flows, and mention that generators' portfolios will affect ability to exercise market power; and
- Note that any competition concerns should be handled by the Commission separately from this rule change.

Action Point **The Market Administrator** to prepare a paper combining the proposals to publish HVDC arc flow indications and HVDC risk offsets, which can then be provided to the legal reviewer.

8. Progressing the Demand-Side Participation Workstream

The Market Administrator gave a PowerPoint presentation on the Demand-Side Participation (DSP) work that has been done under NZEM. It was confirmed that while extensive analysis has not been undertaken, it appears that the implementation of Stage 1 of the Demand-Side Bidding and Forecasting Project (DSBFP) has shown an improvement in the correlation between Dispatch Prices and Final Price over the last three years.

The WMAG discussed the potential benefits of DSP and noted that one major benefit is the potential to further integrate the security and price forecasting processes, thus enabling the system operator to better manage dispatch.

This will inevitably lead to increased available capacity of the system, fewer infeasible solutions and lower costs for ancillary services. This is because, currently, there is a disconnect in the process whereby the pre-dispatch schedule is not accurate enough to be linked to security. Under the proposal, the load forecasts used for the No Response Schedule (NRS) and Demand Response Schedule (DRS) will be more reliable and will feed into the security process. It is anticipated that initially, the security co-ordinator will use the information from the more conservative NRS, although at some stage, when the DRS becomes closer to final prices, the information from the DRS may be used. In addition, it is possible that the two-hour rule could be relaxed if the load forecast was better.

The WMAG agreed that there is potentially significant value in continuing with the DSBFP and requested that the Market Administrator undertake a simple cost-benefit analysis as outlined in the appendix to the paper. The WMAG suggested that security benefits could also be considered (qualitatively) in the CBA. The simple CBA may also consider the cost of load forecasting and bidding for each participant (\$/participant/year).

The Market Administrator agreed to distribute the EnergyLink paper on the DSBFP to WMAG for their information.

Minutes

- Action Points**
- **The Market Administrator** to undertake a simple cost-benefit analysis on Stage 2 of the DSBFP.
 - **The Market Administrator** to distribute the EnergyLink paper on the DSBFP to WMAG for their information.
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9. General Business

Tenure of membership of WMAG

The Chair outlined the process to determine whether members would serve on the WMAG for one or two years. The following tenures were chosen by lot:

One Year	Dean Carroll Doug Goodwin Graeme Everett
Two Years	Therese Thorn Bruce Mason Stephen Cross

Next meeting

The WMAG discussed the likely agenda for the next scheduled meeting on 15 July 2004, and agreed to cancel the meeting planned to be held in Tauranga on this day. The Market Administrator will contact members in due course to confirm whether a teleconference meeting is required in its place. The following meeting, on 19 August 2004, will be hosted by Trustpower Ltd in Tauranga.

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- Action Points**
- **The Market Administrator** to advise members whether a teleconference meeting will be held on 15 July 2004.
 - **The Market Administrator** to liaise with Trustpower Ltd in organising the WMAG meeting on 19 August 2004 in Tauranga.
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The meeting closed at 1.15pm

Minutes

Action Points

No.	Issue	Action/Comment	Due Date
1.	Minutes	The Market Administrator to amend the minutes of the 20 May 2004 meeting.	Completed.
2.	Workplan	The Market Administrator to remove the fuel resource information disclosure item from the WMAG's July agenda	Completed.
3.	Workplan	The Market Administrator to provide a recommendation on working groups to the WMAG following preparation of the workplan and resource requirements.	Pending
4.	Workplan	The Senior Advisor to review the workplan in light of information on Transpower's intended SPD review and advise the WMAG on any changes in workstream priority.	Pending provision of information from Transpower
5.	Replacement of SPD	The Senior Advisor to compile a list of issues to be forwarded to the system operator for comment as to whether each item would be affected by the replacement of the SPD system, and whether there would be any sequencing issues with development items.	Next meeting.
6.	Constraints Issues Group	The Senior Advisor to forward the list of CIG members and Terms of Reference to the WMAG.	Completed.
7.	Mixed Constraints in SPD	The Senior Advisor to update WMAG regarding the amendment of Clause 2.9 of the SO service provider agreement.	August meeting
8.	Part G, Section V, Rule 3.2.2	The Market Administrator to investigate whether Part G, Section V, Rule 3.2.2 affects the information going to the Reconciliation Manager and report back to Senior Advisor.	Completed.
9.	Constraints Issues Group	The Market Administrator to circulate the CIG's revised issues table to the WMAG for their information.	Completed.
10.	Prudential Security Calculation	The Market Administrator to undertake a detailed cost-benefit analysis for the proposed rule change to the Prudential Security calculation.	Completed.
11.	Prudential Security Calculation	The Market Administrator to provide a summary paper on the effect of a purchaser defaulting, including timing impacts, risks for generators, retailers and industrial consumers and how to manage these risks.	Completed.
12.	HVDC risk offsets	The Market Administrator to prepare a paper combining the proposals to publish HVDC arc flow indications and HVDC risk offsets, which can then be provided to the legal reviewer.	Completed.
13.	Demand-side Participation	The Market Administrator to undertake a simple cost-benefit analysis on Stage 2 of the DSBFP.	Completed.

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No.	Issue	Action/Comment	Due Date
14.	Demand-side Participation	The Market Administrator to distribute the EnergyLink paper on the DSBFP to WMAG for their information.	Completed.
15.	Administration	The Market Administrator to advise members whether a teleconference meeting will be held on 15 July 2004.	Completed.
16.	Administration	The Market Administrator to liaise with TrustPower Ltd in organising the WMAG meeting on 19 August 2004 in Tauranga.	Completed.
