

Wholesale Market Advisory Group

11 November 2005

M-co
Level 2
10 Brandon Street
Wellington

Members Present

Bill Heaps (Chair)
Bruce Mason
Doug Goodwin (from 9.15am onwards)
Graham Stairmand
John Scott
Kit Wilson (until 2.15pm)
Therese Thorn
Steve Cross

Also in Attendance

Tim Street	(Electricity Commission)
Laurie Counsell	(Electricity Commission)
Peter Harris	(Electricity Commission) (from 10am to 12:30pm)
Karen Smith	(WMAG administrator)
Margaret Cooney	(WMAG administrator)
Tracy Wilkinson	(WMAG administrator) (from 9:30am to 10:00am)
Neil Walbran	(WMAG administrator) (from 9:30am to 1:30pm)
Brent Layton	(NZIER) (from 10:00am to 11:30am)

Introduction

The meeting opened at 9:10 am.

The Chair welcomed the Wholesale Market Advisory Group (WMAG) members to the meeting and introduced Graham Stairmand as a new member to the group. Members then introduced themselves to Graham Stairmand.

Doug Goodwin joined the meeting at 9.15am.

1. Apologies and Leave

Apologies were accepted from Grant Sullivan.

2. Minutes of previous meeting

The minutes of the 15 September meeting were accepted as a true and accurate record.

(Scott/Mason)

Minutes

3. Matters arising from the previous meeting

The WMAG administrator advised that all action points were completed, except for numbers 4 and 9.

Action point 4: The WMAG was advised that the Senior Advisor Retail would be invited to attend the December WMAG meeting to update the group on the load management project.

Action Point 9: The WMAG was advised that a further paper on the Review of Offer and Dispatch Rules task would be presented at the December WMAG meeting.

4. Correspondence

There was one item of correspondence from Greg Sise, Managing Director, Energy Link Ltd to Tim Street, Senior Advisor Wholesale, Electricity Commission.

The WMAG noted the correspondence and agreed to consider it further as part of the Market Information task.

The Senior Advisor advised that he had already responded to Greg Sise informing him that the issues raised in his letter will be considered as part of the Market Information task.

WMAG members noted that the rule amendments proposed by Greg Sise had not been attached to the letter circulated to the WMAG. The WMAG administrator was requested to forward the proposed rule amendments to members following the meeting.

One member noted that issues about the provision of GXP data had been raised by many parties and felt that this aspect of the Market Information task should be dealt with as a matter of urgency.

Action Point **The WMAG administrator** to circulate the proposed rule amendments to WMAG members.

Tracy Wilkinson and Neil Walbran joined the meeting at 9.30am.

5. Review of Offer and Dispatch Rules: Industrial Co-generation Plant – Oral Update

The WMAG administrator and the Senior Advisor gave the WMAG an oral update on recent meetings with industrials to survey and discuss mechanisms to improve the offer and dispatch rules.

Recent meetings were held with Comalco, Norske Skog, Winstone Pulp International, Carter Holt Harvey and NZ Steel.

Minutes

The meeting with Norske Skog also included discussions on a ‘paper trial’¹ of its proposed capacity reserve scheme. The trial is aimed at highlighting potential issues with the process and the scheme will not necessarily be physically implemented.

One member questioned the merit of the capacity reserve trial. The member suggested that since the cost of developing the capacity reserve initiative would not be included in the cost/benefit analysis of the trial it would be meaningless.

In response, the Senior Advisor noted that the process involved both market and participant costs and therefore there was benefit for the market in determining any potential barriers within the process.

The WMAG administrator provided a summary of the feedback received on the offer and dispatch rules. Key points were:

- “Pure” cogeneration plant, where the cogen is very closely coupled with the industrial site, have greater problems with the Rules than those that have more separation;
- Industrials’ priorities lie with the safety of people and operating plant rather than with contacting the system operator to reoffer their cogeneration;
- Systems for offering range from very crude to quite good;
- Many have extreme difficulty complying with the 5 MW and bona fide rules;
- Compliance costs are seen as too high; and
- The lack of a common Language can be a significant barrier to good communication between industrials and those in the electricity sector.

6. Demand Side Bidding and Forecasting proposal

The Senior Advisor gave an overview of feedback received to date on the DSBF proposal.

It was noted that the price at which industrials would reduce load is often around \$200-\$500/MWh and depends on a range of factors, including the characteristics of their plant and their production schedule. Industrial plants differed on whether they would respond to short price spikes or long price spikes depending on the physical characteristics of their plant.

Some industrials had expressed difficulty in forecasting their load and felt that price signals needed to be strong to provide sufficient incentive to alter demand.

One industrial saw a lot of benefit in the NRS and some potential in the DRS, although this was seen as less useful. The industrial accepted that they would still need to provide bids for the NRS.

Some industrials did not see a large benefit in having improved forecast prices a day in advance, as most just relied on five-minute prices.

WMAG discussions covered the following:

- Ability of major users to shift load;
- How best to get information to the system operator;
- What resources and priority this task should be given;
- How non-conforming load should be defined;

¹ Note, the concept of a trial has not yet been approved by the Board and is therefore only a proposal at this stage. In addition, if the trial does go ahead, the capacity reserve scheme to be trialled has not yet been selected – the Norske Skog scheme is one candidate.

Minutes

- Are the rules designed for generators appropriate for the demand side?; and
- The need to consider the dynamic efficiency implications and potential future scenarios.

The WMAG administrator suggested that the next step would be to undertake a two stage cost benefit analysis (CBA) to assess the incremental benefits of implementing just the NRS against implementing the NRS and DRS. The WMAG agreed that the two stage CBA would be useful.

Action Point **The WMAG administrator** to undertake a two stage cost benefit analysis of the DSBF proposal.

Tracy Wilkinson left the meeting at 10am.

Brent Layton and Peter Harris joined the meeting at 10am.

7. Presentation of the Market Design Report – Brent Layton NZIER

The Chair introduced Brent Layton and advised members that the Board considered the WMAG would have a critical role in providing advice and comments in response to the Market Design Report.

Brent Layton presented the NZIER Market Design Report to the WMAG. The WMAG discussed the report as Brent progressed through the presentation.

Members considered the stocktake paper to be an excellent summary of the current status and operation of the market.

Some members considered the forward price curve to be more transparent than the Report suggests.

Some members considered the greatest barrier to non-TOU customers being subject to more exposure to the spot price (and hence encouraging demand response) is the cost of contract management, and that the metering technology issue can be overcome.

Some members considered the report dismisses the zonal pricing argument too quickly. One member noted that the 2002 report to the NZEM Rules Committee (Trowbridge Deloitte) titled “Assessment of Outcomes Achieved by Full Nodal Pricing in the NZEM” came to a different conclusion to that presented in the Market Design Report.

Members thought the key issue to be addressed when considering FTRs is who is best placed to wear the risk.

The WMAG considered that capacity tickets were dismissed too quickly and that more discussion on this topic is needed.

Brent Layton left the meeting at 11.30am.

Members were asked to consider whether the Way Forward paper had captured all the key design elements. The Senior Advisor noted that the WMAG’s work plan would be reviewed as a result of the report, so members should indicate whether, in their view, the priorities outlined in the report are appropriate.

Minutes

The WMAG was advised the Board had noted the report recommended that work discontinue on both the net pool and capacity tickets and the WMAG's view was being sought on this.

In addition, the apparent interest in the DSBF proposal was not really reflected in the report, and the Board would be interested in the WMAG's comments on this.

The WMAG was also asked to comment on whether capacity tickets is a wholesale or transmission issue. The WMAG noted that the original paper went to the TAG.

The WMAG discussed how to provide feedback to the Board and requested that the WMAG administrator prepare a summary of today's discussions to be reviewed by the WMAG at its December meeting.

Action Point	The WMAG administrator to summarise members' views of the Market Design Report.
---------------------	--

Peter Harris left the meeting at 12.30pm.

8. Instantaneous Reserves Pricing and Dispatch consultation paper

The WMAG administrator presented a summary of the changes made to the consultation paper. In particular:

- The changes proposed by the CQAG to account for the need to change the PPOs to recognise that partial dispatch of reserves could lead to slower frequency recovery in some instances; and
- The changes proposed by the Senior Advisor Wholesale to ensure CVPs appearing in forecast, dispatch and final prices are properly flagged.

Members discussed the implications of CVPs appearing in 'prices'. One member suggested proposing a rule to say that the presence of an infeasible solution means there is no price. Members noted that the system operator is currently working on a solution to this problem, and that this will be incorporated into the consultation paper before being presented to the Board for approval.

The WMAG agreed that it didn't need to see the paper again before it is considered by the Board in late December.

9. High spring washer pricing – consultation paper

The WMAG administrator presented a summary of the changes made to the consultation paper. In particular:

- The move to define the detailed methodology for constraint relaxation in a separate methodology outside the Rules; and
- The inclusion of various rules to tidy up the current final pricing process.

Members discussed the proposed approach of defining the detailed methodology for constraint relaxation outside the Rules. The WMAG noted that this is a governance

Minutes

boundary issue and the Senior Advisor noted that the Commission is currently seeking legal advice on the matter.

One member noted that paragraph 134 of the paper should be amended to be clear that it is a “feature” of the price cap option that it reduces nodal price volatility, not necessarily a “benefit”. The WMAG agreed to this amendment.

The WMAG also noted that paragraph 99 needs further clarification regarding the impact on final prices of relaxing a constraint.

The WMAG administrator noted that the Commission’s legal team are currently reviewing the rule drafting, and the system operator is undertaking some analysis to determine whether 1% of the constraint value is an appropriate level to relax the constraint by. The consultation paper may include a question on the latter and, if so, should also show what the effect of 1% would be. One member suggested that one approach would be to use 1% initially, and then consider changing it if any problems arise.

Some members thought that Appendix 5 was over simplified and that there were steps missing in the logic. The WMAG administrator was requested to review this part of the paper.

The WMAG agreed that it didn’t need to see the paper again before it is considered by the Board in late December.

Action Point **The WMAG administrator** to amend the HSWPS consultation paper as discussed.

Neil Walbran left the meeting at 1.30pm.

10. Interruptible Reserve Availability

The Chair presented a summary of the paper and explained some of the detail around the recommendations made.

The WMAG was asked to consider the scope and priority of the paper. Members considered a high level cost benefit analysis would better inform prioritisation of this task. It was suggested that the first step of the scope should be to define the problem, undertake a high level CBA and identify any quick gains.

The WMAG administrator was requested to amend the scope as discussed above.

Action Point **The WMAG administrator** to amend the scope as discussed.

Minutes

11. Market Information – scoping paper

The Senior Advisor gave an overview of the paper, informed the WMAG that the Commission was already progressing the issue around the provision of GXP data and that a paper will be prepared for the next WMAG meeting.

The Senior Advisor noted that the first step is to seek a legal opinion on the Commission's role and the ownership of data. Some time ago the Commission had received an opinion from Palairt Law on similar issues and the Senior Advisor was requested to investigate whether this could be released to the WMAG.

The WMAG expressed its frustration at the slow speed at which this task seems to be progressing. The Senior Advisor noted that this task, along with a number of other tasks, was now being progressed as a high priority. The Senior Advisor also noted that work was underway to progress the specific rule proposal to publish GXP data on a daily basis. Finally, the Senior Advisor noted that if members had specific concerns with this task, beyond their input to the WMAG, then this may be sent by their respective organisations directly to the Commission.

The WMAG noted that the Market Information task will be driven by the Commission and the WMAG would be a resource for advice on specific issues.

One member noted that the weekly Pricing Report had been omitted from the table in the appendix of the paper.

The WMAG suggested that the objectives for this task need to be clearly defined and that a high level CBA and identification of quick gains is undertaken.

One member raised a concern that M-co had a potential conflict of interest when dealing with market information issues as it is also a provider of information and that its intended change of ownership increased this potential conflict. The WMAG advised the Senior Advisor that the Commission should consider the appropriateness of M-co being involved in the market information task.

Action Points **The Senior Advisor** to determine whether the Palairt Law opinion could be released to the WMAG.

Kit Wilson left the meeting at 2.15pm.

12. Part G Rule Changes – summary of submissions

The WMAG administrator gave a summary of the submissions received on the proposed Part G Rule Changes, and subsequent revisions to the proposal.

It was noted that four submissions were received (from Transpower, Meridian Energy, Contact Energy and Vector) and all were in general support of the proposed rule changes.

However, there were a few minor typographical changes that were suggested in the interests of clarity, consistency and workability. These submissions were analysed and, where the WMAG administrator thought appropriate, revisions were made. The WMAG was advised

Minutes

that the revised proposed rule changes were yet to be reviewed by legal advisors and are consequently still subject to change.

The WMAG supported the revised proposed rule changes with the exception of retaining the word 'spinning' in Form 4 of revised proposed rule change 1. The WMAG agreed with the submission from Meridian that the word 'spinning' should be removed from Form 4 in keeping with the terminology used in the rest of the Rules.

13. General Business

The next WMAG meeting will be held on 15 December 2005. Kit Wilson extended his apologies for not being able to attend the next meeting.

The meeting closed at 2.30 pm.

Next meeting: 15 December 2005

Minutes

Action Points

No.	Issue	Action / Comment	Due Date
1.	Correspondence	The WMAG administrator to circulate the proposed rule amendments to WMAG members.	Completed
2.	Demand Side Bidding and Forecasting	The WMAG administrator to undertake a two stage cost benefit analysis of the DSBF proposal.	December WMAG meeting
3.	Market Design Report	The WMAG administrator to summarise members' views of the Market Design Report.	Completed
4.	High Spring Washer Pricing	The WMAG administrator to amend the HSWPS consultation paper as discussed.	Completed
5.	Interruptible Reserve Availability	The WMAG administrator to amend the scope as discussed.	Completed
6.	Market Information	The Senior Advisor to determine whether the Palairret Law opinion could be released to the WMAG.	Completed