

## Market Development Programme Conference

**Date:** 29 October 2009  
**Time:** 9.00 am – 5.15 pm  
**Venue:** Duxton Hotel, 170 Wakefield Street, Wellington

29 October 2009	
8.30 – 9.00	<i>Registration and coffee</i>
9.00 – 9.10	<b>Welcoming address</b> David Caygill, Chair, Electricity Commission
9.10 – 9.30	<b>Market Development Programme Overview</b> Tim Street, Electricity Commission
9.30 – 10.15	<b>Scarcity Pricing and Compulsory Contracting</b> Lana Stockman, Electricity Commission David Hunt, Concept Consulting
10.15 – 10.30	<i>Morning Tea</i>
10.30 – 11.15	<b>Scarcity Pricing and Compulsory Contracting (continued)</b>
11.15 – 12.45	<b>Locational Price Risk</b> Tim Street, Electricity Commission Alistair Dixon, KEA3 Grant Read, EGR Consulting
12.45 – 13.30	<i>Lunch</i>
13.30 – 14.00	<b>Dispatchable Demand</b> Tim Street, Electricity Commission
14.00 – 15.15	<b>Transmission Pricing Review</b> John Gleadow, Electricity Commission Rajat Sood, Frontier Economics
15.15 – 15.30	<i>Afternoon Tea</i>
15.30 – 17.00	<b>Panel Discussion</b> Chair: James Moulder Panel: Brent Layton, NZIER Greg Thorpe, Oakley Greenwood Rajat Sood, Frontier Economics Grant Read, EGR Consulting John Culy, HRL Morrison
17.00 – 17.15	<b>Closing remarks</b> David Caygill
17.15	<i>Conference ends</i>

The timetable is subject to change.

## **Market Development Programme Conference**

### **Background information and purpose**

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**Venue:** Duxton Hotel, 170 Wakefield Street, Wellington

#### **Introduction and purpose**

This conference covers four related consultation papers that have been released as part of the Commission's Market Development Programme (MDP). The papers are on scarcity pricing and compulsory contracting, managing locational price risk, transmission pricing and dispatchable demand. The purpose of the conference is:

- to give parties an opportunity to better understand and discuss the high-level issues for the four MDP consultation papers with a view to providing submissions on the papers;
- to give parties an opportunity to better understand the overall MDP framework and linkages between the four topics; and
- to give the Commission the opportunity to advance its understanding of potential different viewpoints from participants.

#### **Background to the MDP consultation papers**

The Commission has launched the Market Development Programme – known as MDP – to improve the performance of the electricity market. The MDP is designed to address two key areas of concern:

- (a) supply security – although actual power cuts due to insufficient generation have not occurred in New Zealand since the 1970s, there is a strong perception that the system is unreliable. The succession of supply 'scares' and frequent calls for widespread voluntary power savings (three times since 2001) reinforce this perception. There is also doubt about whether current arrangements provide sufficient reward for resources (generation and/or demand-side response) which are required very infrequently to meet peak demand, or to offset low hydro generation during extreme droughts; and
- (b) electricity prices – prices have increased for all customer groups, but have risen especially sharply for residential users. There is uncertainty over whether the increases reflect rising costs, inefficiencies in the sector or the exercise of enduring market power.

Because of the complex and interlinked nature of the electricity supply chain, the MDP is being taken forward as an integrated package of measures.

Consultation papers on four of the projects within the MDP were released in early October. These are:

- *Scarcity pricing and compulsory contracting: options*
- *Managing locational price risk: options*
- *Transmission pricing review: high level options*
- *Dispatchable demand: options*

While all these consultation papers are ‘stand-alone’ documents, the Commission recognises the strong linkages between the topics that they cover – particularly the first three. For this reason, the papers have been released concurrently.

The Commission is mindful that these papers are being released while there is an ongoing Ministerial Review of the electricity market (Ministerial Review).

The Ministerial Review discussion paper: *Improving Electricity Market Performance* made a number of recommendations that align with the MDP initiatives and recognised that the Commission has a review of transmission pricing underway. Interested parties have made submissions in response to that discussion paper.

All four of the Commission’s consultation papers present options rather than a formal proposal and as such there will be time to consider issues that arise from the Ministerial Review during later stages of these four – and other MDP – projects where the options are being refined.

### **Role of the conference within the consultation process**

This conference has been arranged following the release of the four related consultation papers to provide an opportunity for parties to better understand the overall MDP, individual papers and the linkages between them in advance of parties providing submissions.

Whilst the conference provides an opportunity to discuss the consultation topics it is important to note that the written submissions to the consultation papers remain the principal avenue by which the Commission will receive interested parties’ views.

### **Conference format and panel discussion**

The Commission will present overviews of the four consultation papers, and provide time during each presentation for questions from participants.

In the afternoon, after the four topics have been covered, there will be a panel discussion. The panel is made up of industry experts, and will be chaired by James Moulder who also chairs the Commission’s Market Development Advisory Group. The focus will be on linkages and coordination of the topics, and on issues arising from the earlier parts of the conference. Participants will be encouraged to interact with the panel.

## **Panel members**

### **James Moulder (chair)**

James Moulder is the founder of Cybele Capital a boutique investment and renewables advisory firm. James founded Cybele after holding a number of general management positions within the New Zealand power industry at Mighty River Power. These roles included general manager, trading, general manager Mercury Energy and general manager, generation. Prior to joining Mighty River Power, James was a director of financial and risk consulting at Andersen in Australia and held a number of senior positions within the trading room at ANZ Bank.

James is currently chair of the Electricity Commission's Market Development Advisory Group.

### **Brent Layton**

Brent was the chief executive of NZIER from 2003-2008 and recently re-joined as a senior fellow. From the mid-1980s he was a company director and from 1991 he was a full-time director and economic consultant. He has served on the Boards of companies in sectors as diverse as finance and banking, health, scientific research, electricity, food processing, transport and IT.

Brent has degrees in economics and economic history. He has taught university courses to masters level in economics, economic history, corporate finance and financial risk management. Recently Brent has chaired the Ministerial Review of the electricity market, Electricity Technical Advisory Group. Brent is also a member of the Electricity Commission's Transmission Pricing Technical Group.

### **John Culy**

John is a specialist in energy and utility economics with Morrison & Co with specific expertise in the analytic techniques of hydro/thermal power system modelling, operation and planning. John is also a specialist in the theory and practice of electricity and transmission spot pricing and financial economics. He joined Morrison & Co in 1997 and prior to that was with Contact Energy and the Institute of Economic Research.

John has recently provided advice to the Commission on scarcity pricing mechanisms and compulsory contracting.

### **Rajat Sood**

Rajat specialises in all aspects of energy market design and regulation, including competition analysis. He has advised policy-makers, regulators and energy businesses in Australia and elsewhere on issues from network investment and pricing methodologies to approaches for congestion management. Rajat was also part of the Frontier team responsible for the implementation of full retail competition in electricity in New South Wales, and he remains involved in debates regarding smart metering and measures to improve energy efficiency.

Rajat is qualified in both economics and law and formerly practised as a solicitor at Freehill Hollingdale and Page.

Rajat has been assisting the Commission with its Transmission Pricing Review.

### **Greg Thorpe**

Greg has 35 years experience in the energy utility sector and is currently a director with energy and water consultancy Oakley Greenwood. Until late 2008 he was a Vice President for Charles River Associates (known for a time as CRA International), and led the local energy practice. He advises clients in Australasia and Asia.

Greg's previous roles in the Australian electricity sector include as an associate director of the former National Electricity Code Administrator where he was executive officer to the Reliability Panel and he established the monitoring and surveillance function for the electricity market. Prior to that he managed the market rules for the Victorian state market. He is an experienced power system engineer and more recently has achieved accreditation as an arbitrator and has sat on panels hearing market disputes and provided expert evidence in legal proceedings.

### **Grant Read**

Grant has been closely involved with the electricity sector, both as a researcher and a consultant on operational, planning, and pricing issues. For the last 20 years he has concentrated on electricity market design, in New Zealand and several overseas countries. In particular, he has been involved in theoretical development and practical implementation of mechanisms for energy/reserve market coordination, locational pricing, inter-locational hedging, and transmission infrastructure cost-recovery. Grant established the Energy Modelling Research Group at Canterbury University where he is now Adjunct Professor in Management Science. He acts as a senior consultant with CRA International and, as a director of EGR Consulting, has recently provided advice to the Electricity Commission on locational hedging.