

TRANSPower NEW ZEALAND LIMITED

Transpower submission  
to the Electricity Commission:

Issues and Indicative Options for the  
Spot Market Pricing Process and UTS Provisions

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**TRANSPower**

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## **1 INTRODUCTION**

This submission sets out Transpower's principal concerns with respect to the Electricity Commission's November 2008 paper *Issues and Indicative Options for Spot Market Pricing Process and UTS provisions*.

Transpower notes that the paper is largely a scoping exercise and, as such, does not provide sufficient information for Transpower to assess in any detail the potential impact of the proposals on its business.

Consequently, this submission necessarily provides only high level comments (including responses to some of the questions raised in the paper) on aspects that Transpower considers most relevant to its business.

## **2 OVERVIEW**

As a general comment, Transpower wishes to emphasise the fundamental principle that the spot price of electricity should reflect the marginal cost and notes that this principle underpins all of its responses provided in the submission.

### **2.1 Settlement on 5-minute prices**

Transpower believes that the objective of greater pricing certainty for off-take is commendable, but is concerned that issues such as technical limitations, difficulties with process implementation, and problems with alignment of the rules are likely to make this concept impracticable at the current time.

### **2.2 Interim pricing period**

Transpower agrees that there is merit in improving the procedures for correcting pricing errors and thereby avoiding unnecessary undesirable trading situation claims. Transpower therefore believes that this concept should be investigated further.

### **2.3 Alignment of pricing and dispatch processes**

In Transpower's view, any change from the current arrangements would be inconsistent with the market design. Therefore, Transpower does not think that this proposal is feasible under the current system.

### **2.4 Intermittent generator offers**

Transpower agrees that the proposed use of metered data from intermittent generators as an offer in the calculation of final prices is worth investigating further.

Any changes should relate to “offered” intermittent generation (whether directly connected or embedded). This will require changes to the demand half-hour metering calculations in Part G Section V Rule 3.3.2.1, and will also require embedded intermittent generators to supply MWh information. Treatment of “unoffered” intermittent generation should remain unchanged.

## **2.5 Clarity of the pricing process**

Transpower has provided a document to the Commission explaining the System Operator’s process for resolving infeasibilities and high spring washer price situations and is happy for it to be published on the Commission’s website. Transpower would also be happy to answer any specific questions or concerns that participants may have about its processes.

Transpower agrees that links to information on pricing inputs should be published, provided that commercial sensitivity is respected.

Transpower believes that not only should contradictions and errors in the pricing rules be corrected, but that Part G should be re-drafted in its entirety, especially in light of further proposed market design changes.

## **2.6 Undesirable trading situations (UTS) provisions**

Transpower believes that the current UTS provisions and investigation arrangements are generally appropriate, but that amendments to clarify ambiguities should be progressed. However, Transpower does not agree that the Commission should have the power to direct participants to act in a manner that is inconsistent with the rules and regulations in order to remove a UTS, or that the Rulings Panel should be given the power to award compensation in excess of penalty limits.

## APPENDIX: RESPONSES TO CONSULTATION QUESTIONS

QUESTION		TRANSPOWER RESPONSE
<b>Questions regarding conceptual framework</b>		
Q1	<p>Do you agree the desirable attributes of generic pricing processes are timeliness, predictability, authoritativeness, accuracy, robustness, simplicity and transparency?</p> <p>If not, why not and what other attributes would you suggest?</p> <p>Do you agree with the definitions of these attributes?</p>	<ul style="list-style-type: none"> <li>• Robustness and authoritativeness should be taken as a given in any pricing process.</li> <li>• The key issue is the trade-off between price certainty and price accuracy.</li> <li>• The purpose of accuracy is to reflect the marginal cost.</li> <li>• There does not appear to be any recognition of risk in the framework – that is, depending on which attributes are emphasised as more or less important, the risk falls in a different place.</li> </ul>
<b>Questions regarding settlement on 5 minute prices</b>		
Q6	<p>Are there any other implementation issues that would be associated with the introduction of settlement on 5 minute pricing?</p>	<ul style="list-style-type: none"> <li>• Transpower is concerned that the use of SCADA data to measure load raises questions of fitness for purpose and availability. Even if SCADA data were available on a 5 minute basis, the information was not designed to meet the standards required by meter revenue data. In fact, the new Technical Code C requirements (implemented in late 2006) have further reduced both the accuracy and availability standards compared to previous versions. In Transpower’s view, these rules would require substantial amendment before SCADA data could be used as the load input for final pricing.</li> <li>• Currently, there is only a “best endeavours” requirement on 5 minute indicator prices, but this proposal would place far more importance on these.</li> <li>• If new metering were installed, it is possible that near real time 5 minute data could be made available for pricing. However, this would create the need for continuous monitoring of data availability and quality.</li> </ul>

<b>Questions regarding an interim pricing period</b>		
Q8	Do you consider that there should be a clear-cut rule for deciding which type of input errors should be corrected in final prices? Please explain.	<ul style="list-style-type: none"> <li>• Transpower believes the interim pricing period is a useful initiative to allow market participants to raise concerns about pricing, for example, where an error is discovered in the metering input data.</li> <li>• In order to determine which claims should be corrected, it will be important to define clearly the concept of “material effect” proposed by the Commission. Naturally, a broad definition would likely result in a large volume of queries, while a narrow definition could discourage participants from raising pricing issues within the interim process and instead lead them back to the UTS provisions – this, of course, would defeat the purpose of introducing the interim period.</li> <li>• Clear guidelines and transparency are required but these need not be totally prescriptive.</li> <li>• Transpower considers that the ability to request a rerun should be open to all parties involved in the pricing process (i.e. not just buyers and sellers).</li> </ul>
Q9	What implementation issues do you think would be associated with the development of such a rule?	<ul style="list-style-type: none"> <li>• Some of the potential issues that Transpower can foresee are:               <ul style="list-style-type: none"> <li>• Who would be responsible for amending the input data?</li> <li>• Who would determine the threshold?</li> <li>• Who could request a correction and what would be the timeframe permitted for corrective action? (e.g. post-final, post-interim, post-settlement, several years later?)</li> </ul> </li> </ul>
Q10	Do you agree with the Commission’s preliminary view of the types of errors which should be addressed using an interim pricing period? If not, why not?	<ul style="list-style-type: none"> <li>• Transpower believes that option (a) corrections will be the most difficult to justify. However, it considers that the concept of an ability to challenge high (and theoretically low) prices appearing in final prices which have not been signalled to the market is worth investigating further.</li> </ul>

Q11	Do you agree with the Commission's identified options for the design of an interim pricing process? If not, why not?	<ul style="list-style-type: none"> <li>• Transpower agrees that the concept of an interim pricing period is worth pursuing further, especially as it provides a better means by which to investigate price differences than the UTS route.</li> <li>• However, further thought needs to be given to the design options to ensure that they do not become too complex and administratively onerous for participants to implement.</li> </ul>
Q12	How long do you think an interim pricing period should be? Please explain.	<ul style="list-style-type: none"> <li>• The primary concern with the introduction of an interim pricing period is the commercial one of balancing price certainty against finality of settlement. This should be the driver for both the trade-off and the length of the time period.</li> <li>• Any period also needs to take account of practical restrictions such as workload, and ensure that any delay in final pricing does not have a flow-on effect which may lead to a breach of settlement obligations.</li> </ul>
<b>Questions regarding alignment of the pricing and dispatch processes</b>		
Q14	Do you agree with the problem as described above? Please explain.	<ul style="list-style-type: none"> <li>• No. The "initial conditions" model is the market design and the basis for the willing buyer/willing seller contract. The proposed changes are incompatible with the current market design.</li> <li>• The current proposal mixes commercial conditions with an academic pricing solution. Transpower believes that the commercial conditions should prevail.</li> </ul>

<b>Questions regarding the accuracy of metering information</b>		
Q19	Do you agree with the Commission's initial assessment? If not, why not?	<ul style="list-style-type: none"> <li>• The present thresholds were set so as to be neutral over a period of a year. Transpower suggests that this analysis be repeated to determine whether or not it is necessary to revise the thresholds.</li> <li>• In the absence of any data on which to evaluate the effects on final pricing, it is difficult to draw a conclusion on the proposed options. However, Transpower believes that caution must be exercised before tightening the thresholds as this will result in an increased number of metering situations and consequently the number of provisional prices. This, in turn, would result in delays in the publication of final prices.</li> </ul>
Q21	Do you agree that the Commission should consider incorporating some flexibility into the definition of 'initial estimate' to account for situations where the initial estimates are likely to be particularly inaccurate? Please explain your answer.	<ul style="list-style-type: none"> <li>• Transpower agrees that a degree of flexibility is required in extreme circumstances where the equivalent day demand appears unrepresentative, but believes that the requirement to achieve accuracy in such situations should be on the basis of "reasonable endeavours" only.</li> <li>• It would be useful to have examples of how the demand would be derived in these cases (e.g. using some element of the previous day's demand, etc.).</li> </ul>
Q22	Do you agree that the Commission should consider extending rule 3.3.2.2 of section V of part G of the Rules (and other related rules) to require an initial estimate to be provided when data is identified as being incorrect rather than just when data is not available? Please explain your answer.	<ul style="list-style-type: none"> <li>• This appears logical, but Transpower considers that the word "incorrect" needs to be clearly defined.</li> <li>• There also need to be clear guidelines about how rule 3.3.2.2 will be applied. For example, Transpower would not like to see a situation where "unknowingly" incorrect data are supplied and then later found to be incorrect, and a rule breach is then alleged for not supplying an estimate.</li> </ul>

Q24	Do you agree that the Commission should consider removing the requirement for generators to provide metering information directly to the pricing manager? If not, why not?	<ul style="list-style-type: none"> <li>• Transpower supports this change, provided that the Grid Owner continues to have access to all information required to prepare the input data.</li> </ul>
Q25	Do you agree that using metered data from intermittent generation as an offer in the calculation of final prices is likely to lead to more certain and accurate final prices? If not, why not?	<ul style="list-style-type: none"> <li>• Transpower agrees that the proposed use of metered data from intermittent generators is worth investigating further.</li> <li>• In Transpower’s view, the main advantage of the concept is that the inclusion of intermittent generators alongside other generators’ offers should mean that no unexpected constraints bind in the calculation of final prices.</li> <li>• Any changes should relate to “offered” intermittent generation (whether directly connected or embedded). This will require changes to the demand half-hour metering calculations in Part G Section V Rule 3.3.2.1 and will also require embedded intermittent generators to supply MWh information. Treatment of “unoffered” intermittent generation should remain unchanged.</li> </ul>
<b>Questions regarding the clarity of the pricing process</b>		
Q27	Do you agree that a document explaining the system operator’s process for resolving infeasibilities and high spring washer price situations should be published on the Commission’s website?	<ul style="list-style-type: none"> <li>• Transpower has provided a document to the Commission explaining the System Operator’s process for resolving infeasibilities and high spring washer price situations and is happy for it to be published on the EC website.</li> <li>• Transpower would also be happy to answer any specific questions or concerns that participants may have about its processes.</li> </ul>

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Q29	Do you agree that information on how to access pricing inputs should be published on the Commission's website?	<ul style="list-style-type: none"> <li>• Transpower agrees that links to information on pricing inputs (but not the data themselves) should be published, to ensure that commercial sensitivity is protected.</li> </ul>
Q30	Does the table in Appendix F provide sufficient information? If not, what changes would you suggest?	<ul style="list-style-type: none"> <li>• It would be useful to have the page on each site referenced in addition to the data source.</li> </ul>
Q31	What information do you believe should be made freely available to participants?	<ul style="list-style-type: none"> <li>• Transpower agrees in principle that as much clarity as possible should be provided, but this needs to be weighed alongside the commercial sensitivity (as determined by the Commerce Commission) of the data and the ease with which it can be retrieved and published.</li> </ul>
Q32	Do you support the initiative to review the pricing rules at this time?	<ul style="list-style-type: none"> <li>• Transpower supports a review of the pricing rules as part of a wider review of Part G as a whole. The rules should be logical, easy to follow and should avoid repetition. Transpower believes that piecemeal changes are more likely to create further ambiguities and inconsistencies within the existing rules, as well as potentially making the rules more difficult to follow as a result of the addition of new sections and numbering.</li> </ul>
<b>Questions regarding UTS provisions</b>		
Q35	Do you think the criteria for determining a UTS, as set out in regulation 55(1), are appropriate? If not, how do you think a UTS should be defined?	<ul style="list-style-type: none"> <li>• Transpower considers that the current definition should be retained.</li> </ul>

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Q36	Do you agree with the Commission's assessment that a rule breach would normally have an extra element to it, such as an attempt at market manipulation or misleading or deceptive behaviour, to be classified as a UTS?	<ul style="list-style-type: none"> <li>• Yes.</li> </ul>
Q37	Do you think regulation 55(2)(d) should be amended to state that a UTS includes a "material breach of any law, other than a breach of the rules or regulations", or should it be revoked entirely?	<ul style="list-style-type: none"> <li>• Transpower considers that the regulation should be amended rather than revoked entirely.</li> </ul>
Q38	Do you think any changes need to be made to the way in which the Commission investigates UTS claims?	<ul style="list-style-type: none"> <li>• No.</li> </ul>
Q39	Do you believe the Commission should have the power to direct participants to act in a manner that is inconsistent with the Rules or Regulations in order to resolve a UTS?	<ul style="list-style-type: none"> <li>• No – the Commission should always direct participants to act in accordance with the Rules.</li> </ul>

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Q41	<p>Do you agree that the Rules should clearly state that the Board may close out at a specified price if a UTS has occurred?</p> <p>If so, what is the best course of action for making the Rules clear on this matter: deleting rule 3.27 of section V of part G of the Rules; amending it; or some other course of action?</p> <p>If not, do you agree that prices should stay final and the UTS remedy to close out at a specified price should be deleted?</p>	<ul style="list-style-type: none"><li>• Transpower agrees that this inconsistency needs to be addressed. However, the intention of the original rule drafting should be taken into account when considering any changes.</li><li>• In Transpower's view, it would seem more appropriate to amend rule 3.27, as a UTS is only one example of a situation where this provision may be used and deleting it altogether may have unintended consequences.</li></ul>
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Q42	Should the Rulings Panel be given the power to award compensation in excess of the penalty limits outlined above? If so, what order of compensation is appropriate and how would the compensation be funded?	<ul style="list-style-type: none"><li>• No. It was decided under the NZEM regime, following a series of drawn out and significant market-impact cases, that requiring a participant to compensate parties for losses would be a form of price recalculation and had the potential to bring the market into disrepute. In other words, an award of compensation would effectively amount to a delayed change to final prices and thereby undermine the certainty from which the industry currently benefits.</li><li>• The present exclusions and limits are a matter of market design – a reflection of a deliberate trade-off between price accuracy and price certainty – which in Transpower’s view should not be considered in isolation from all rules relating to final prices.</li><li>• If any change were to be in addition to the current fine and compensation arrangements, service providers’ exposure would also have to be given special consideration. Service providers are subject to fixed fee arrangements and, unlike generators, distributors and retailers, are not able to adjust prices to account for risk (outside of periodic fee renegotiation periods).</li><li>• Any rights to award compensation against a service provider must be subject to limitations that would enable the service providers to insure or otherwise make financial provision for the exposure, as is currently done in respect of the existing fines and compensation arrangements.</li></ul>
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