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John Rampton
General Manager
Level 7, ASB Tower
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By email: submissions@ea.govt.nz

Dear John

Spot market review

Thank you for the opportunity to provide feedback on the Electricity Authority's (the Authority) discussion paper *Options to improve retail competition - Findings of the spot market review*, published 12 February 2015. Our interest in this matter is primarily as Transpower providing the system operator service.

We support the Authority's efforts to facilitate retail and hedge market competition. In the case of retail markets this objective will be advanced by eliminating unnecessary complexity and volatility. This will help reduce cost and risk premia for all parties and level the playing field between incumbents and entrants and between vertically integrated firms and independent retailers.

We support further analysis of the proposed options

We agree that the two options identified by the Authority in the discussion paper for further investigation - real time prices and an ahead market - warrant analysis. These options should be considered in the context of parallel development of other spot market design features.

- **Real time prices**

We agree with the Authority's proposal to investigate further the efficiencies of and issues with more closely aligning schedule and final prices and not delaying price settlement. We believe that an important element of this work will be to review the suitability of the current short and/or medium term load forecast.

We would like to work with Authority to investigate the issues raised in the discussion paper regarding the operation of the system in real time to enable earlier settlement of prices. Technical investigations would be required in these areas; for example, resolving SPD infeasibilities in real time.

- **Ahead market**

We would like to work with Authority to explore design options for an ahead market. This would require identifying how far in advance an ahead market should be and the compatibility with existing schedules and tools.

In the case of shorter gate closure the analysis should identify any impact on the ability to strike the appropriate risk balance between reliability and ensuring efficiency and competition in delivering the system operator service in real time.

We look forward to working with the Authority to explore the feasibility and practical application of implementing these proposals in the market and market systems. I note that some reprioritisation may be required if the aim is to explore both options during 2015/16.

We have responded to the questions at Appendix A. Please let me know if you have any questions or would like to discuss any part of this submission.

Yours sincerely

A handwritten signature in black ink, appearing to be 'JC' followed by a long horizontal stroke and a small flourish at the end.

Jeremy Cain
Regulatory Affairs & Pricing Manager

Appendix A - Response to Consultation Questions

Question No.	Question	Response
Q1	Do you agree with the choice of high level spot market design issues we've considered? If not, what other issues should be evaluated and why?	We agree. The two options suggested for further investigation do warrant analysis – real time prices and an ahead market. This work should also have regard to parallel development of other spot market design issues.
Q2	Do you agree that the Authority should explore real time pricing options in 2015/16? Please explain your reasoning.	<p>We agree. We appreciate the desire from participants to more closely align schedule and final prices and not to delay price settlement.</p> <p>We suggest the scope at this stage should include settling closer to real time (e.g. fast 30min settlement) as well as on 5 minute prices themselves.</p> <p>A related area to explore is the suitability of the short and/or medium term load forecasts as a reliable and accurate forecast contributes to the aim of more closely aligning schedule and settlement prices.</p>
Q3	Do you agree that the Authority should not explore zonal pricing in 2015/16? Please explain your reasoning.	We agree that this should not be a priority in the 2015/16 year.
Q4	Do you agree that the Authority should explore introducing an ahead market (and shorter gate closure) in 2015/16? Please explain your reasoning.	We agree. We would like to work with Authority to explore design options and compatibility with existing schedules and tools, and in the case of shorter gate closure any impact on the ability to strike the appropriate balance between reliability and ensuring efficiency and competition in delivering the system operator service in real time.
Q5	Do you agree that the Authority should not explore 'paid for' demand response programmes in 2015/16? Please explain your reasoning.	<p>We agree that further exploration by the Authority of 'paid for' demand response programmes for energy market purposes should not be a priority in the 2015/16 year.</p> <p>However, we support the Authority's work to develop demand response guiding principles. This work will help inform the development of future demand response programmes (including Transpower's ongoing work in relation to the use of demand response for transmission investment deferral purposes).</p>

Question No.	Question	Response
Q6	Do you agree that the Authority should not explore mandatory capacity products in 2015/16? Please explain your reasoning.	<p>We agree that this should not be a priority in the 2015/16 year.</p> <p>We believe the incentives for New Zealand generation are working adequately at this point under an energy-only market.</p>