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Submissions  
Electricity Authority  
Level 7, ASB Tower  
2 Hunter Street  
Wellington

By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Greg

## Exploration of Real -Time Pricing Options

We welcome the opportunity to comment on the Authority's information paper *Assessment of real-time pricing options*, published April 16 2016.

We support the investigation of reviewing spot market price design and have provided technical input into the Authority's process. We recognise that there is an inefficiency problem if difference(s) between indicative and final prices undermines market participants' confidence in making consumption decisions on the basis of those prices (how "actionable" the indicative prices are). Calculating final pricing closer to real time enables a reduction in the consumption regrets caused on the basis of the indicative prices.

We conclude there is merit in exploring the 'quick wins' identified by the Authority and support pursuing these further. However at this stage, we are unable to support the choice of any one of the design options as the cost benefit analysis (CBA) is not sufficient for that purpose. We discuss these aspects below.

### Cost benefit analysis

A key dimension to assessment of the problem is the extent and frequency with which indicative prices differ from final prices, and the extent to which any differences cannot be anticipated in advance. This provides an upper bound to the potential benefits from a move to real-time pricing or other potential policy initiatives (e.g. changes to make the indicative prices more accurate). We agree that allocative inefficiency arises in the current state from the 2% of time that there are 'regretted' consumption decisions and misallocation of resource (plus any additional risk management costs that might be induced).

We also consider that that CBA could be better used to determine which of options A, B, C and D should be preferred. The Information Paper CBA only relies on assumption that 5 minute pricing options would be preferable to 30 minute pricing options to rule out A and D, and then simply assumes (via the '67%' reduction<sup>1</sup>) that option B provides greater benefits than option C.

A quantified CBA as a tool for assessing between options would need to articulate the trade-offs for features such as certainty, accuracy and the potential for gaming as well as costs. From a purchaser perspective, a crucial element to assessing this trade-off is to understand the price elasticity of demand. The analysis presented uses an indirect assessment of load response but without tying that to price changes there is no reason to believe this is efficient. A reduction in demand leading to less generation investment could be viewed as economic losses not a gain i.e. demand reduction is not a benefit per se.

### Next steps

Previously the Authority has identified in its spot market decision paper that *"there may be the potential for 'quick wins' in improving the alignment between forecast and settlement prices. Therefore, it will consider which of them should be pursued during its evaluation of RTP alternatives....and the next stage gate is planned for the second quarter of 2016. It provides an opportunity for the Authority to re-evaluate the costs and benefits of continuing work on RTP after considering the potential benefits that could be achieved by implementing any quick wins<sup>2</sup>.*

We support this approach. We understand there are incremental processes in train that have been identified as partial solutions to the 2% of mis-alignment between RTP and settlement prices. The features common to all options (automation of infeasibilities and high spring washer situations, pricing error and UTS processes) may be warranted in their own right as incremental steps in improving confidence that divergence between RTP and settlement price is reduced.

If you have any questions about this submission please contact me on 04 590 7544.

Yours sincerely



Jeremy Cain

**Regulatory affairs and Pricing manager**

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<sup>1</sup> Option C is assumed to be 67% of the benefits of option B (paragraph F.19 of the consultation paper which is then applied to the other benefits in paragraphs F.28 and F.40)

<sup>2</sup> EA decision paper spot market pricing <http://www.ea.govt.nz/development/work-programme/wholesale/exploring-refinements-to-the-spot-market/development/>



## Appendix A – Questions and answers

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	Question	Response
1.	Do you agree the spot pricing issues identified by the Authority are worthy of further investigation	Yes, including further investigation of problem definition and quantification taking into account incremental changes.
2.	Are there any options you think we missed? If so, please describe them	Options that provide for incremental change as indicated in the Authority's decision paper and in this consultation paper (section 3.9).
3.	Do you agree with the cost benefit assessment? If not, why not	No, for reasons in the cover letter.