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Consultation Paper – Update to Scarcity Pricing Settings

Thank you for the opportunity to provide feedback on the Electricity Authority's consultation paper "*Update to Scarcity Pricing Settings*".

In our 5 March 2024 submission to the Authority's consultation on potential solutions for peak electricity capacity issues, we observed that:

(a) Consumer, business and political appetite for any material disruption in electricity supply was very low as the events of 9 August 2021 showed. This appetite would reduce further as customers and businesses electrify more of their lives and activities, and Governments look to make significant progress towards achieving New Zealand's decarbonisation objectives.

(b) System reliability and the wider costs of supply disruption should be given greater consideration when assessing trade-offs and potential solutions. Reliability – not just lower cost – is in the long-term interest of consumers. There is a risk that reduced reliability (or the perception of the same) results in a slower transition as consumers lack the confidence to electrify.

(c) Market conditions and perceptions of risk have changed since the 2018 Transpower/PWC value of lost load (**VoLL**) study. We suggested that an updated study be considered.

Accordingly, Genesis welcomes the Authority's review of the scarcity pricing settings.

We agree with the Authority that scarcity pricing settings that would result in power cuts while there is generation capacity available for dispatch, and which requires the System Operator to exercise discretion to avoid, is undesirable. We support the proposed amendments to:

(a) Raise the energy scarcity values to $17,000/MWh, $25,000/MWh and $40,000/MWh.

(b) Reduce the number of reserve capacity blocks to one tranche.

(c) Raise the default value of controllable load to $16,000/MWh.

We generally agree with the reasons set out by the Authority for the proposed changes.

However, in relation to the energy scarcity values, we note that:

(a) Higher thresholds are required to better reflect the value of lost load and ensure clear price signals.

(b) Notwithstanding the complexity in calculating VoLL and its purpose, the thresholds should be reviewed again following a full update of the VoLL as they are set by reference to VoLL.

(c) In the absence of an updated VoLL, there are grounds for applying a price index to the 2018 VoLL given, among other things:

   (i) The period of time that has passed since the 2018 VoLL.

   (ii) The customer surveys undertaken by Advisian for the 2018 VoLL included direct costs and other costs which will have increased since then.

   (iii) The 2018 VoLL was consistent with applying a price index to the 2004 VoLL.

   On balance, however, the prudent approach would be to use the 2018 VoLL for now and to reconsider the thresholds following a comprehensive VoLL review.

Please contact me should you have queries or wish to discuss our feedback further.

Yours sincerely

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