



29 November 2024

Electricity Authority  
By email: [OperationsConsult@ea.govt.nz](mailto:OperationsConsult@ea.govt.nz)

### **Update to scarcity pricing settings**

Meridian appreciates the opportunity to provide feedback on the Authority's consultation paper 'Update to scarcity pricing settings'. Our responses to the Authority's specific consultation questions are attached as Appendix A.

Our main point of substance is that the Authority may wish to consider limiting the quantity of the reserve scarcity tranche to the level above which reliance on AUFLS would lead to cascade failure in a contingent event. Further details on this suggestion are set out below.

Please contact me if you have any queries regarding this submission. This submission can be published in full.

Nāku noa, nā

Matt Hall  
**Manager Regulatory and Government Relations**

## Appendix A: Responses to consultation questions

	Question	Response
1	Do you support the proposal to raise energy scarcity prices? Please explain your answer.	Yes. We agree that energy scarcity prices should be set at a level which prioritises deployment of spare generation capacity before resorting to demand management. We note, however, that higher energy scarcity prices will not necessary address the issues described in Scenario 1 in the consultation paper i.e. offering by generators at prices close to or above energy scarcity prices. Generators may simply choose to increase offers in line with the increase in energy scarcity prices. As the Authority notes, it will need to rely on monitoring and enforcement of trading conduct provisions to ensure that offer prices are justified.
2	Do you support the proposal to set energy scarcity prices at values consistent with 2018 VoLL (\$17,000/MWh, \$25,000/MWh and \$40,000/MWh)? Please explain your answer.	Yes, we support use of the values derived from the 2018 calculation of VoLL. We note there may also be a duration dimension to be considered in using VoLL to set energy scarcity prices i.e. if there is an energy shortfall for a prolonged period – hours or days – is it appropriate that prices remain at the same scarcity pricing level or would we expect VoLL to decrease over time as consumers find ways to respond?
3	Do you support the proposal to reduce the number of reserve scarcity prices from three tranches to one tranche? Please explain your answer.	<p>We understand the desire to simplify the structure of reserve scarcity prices. However, we note a further issue for the Authority’s consideration.</p> <p>Reserve scarcity prices will result in the System Operator (SO) prioritising generation for energy rather than reserves under certain conditions. In making this trade off, the system can become reliant on the deployment of AUFLS to manage the contingent events which otherwise would have been covered by reserves.<sup>1</sup> At some point, reducing the dispatch of reserves will create a risk of cascade failure or will otherwise compromise the SO’s ability to meet its Principle Performance Obligations. In such a situation, the SO will choose to manage demand before reducing reserves. This effectively creates a limit on reserve scarcity quantities.</p> <p>In setting reserve scarcity prices, the Authority may wish to consider limiting the quantity of the reserve scarcity tranche to the level at which reliance on AUFLS would lead to cascade failure in a contingent event. This calculation could be made in RMT or approximated from an RMT output then passed to</p>

<sup>1</sup> This is described in Transpower’s consultation paper on [Coordination of Low Residual Situations](#) (see paragraph 22).

		SPD as an input. If calculating this limit for every trading period is too complex, then it may be prudent to impose a reserve scarcity tranche volume which approximates where this threshold is generally met.
4	Do you support the proposal to set reserve scarcity prices at \$4,000/MWh for FIR and \$3,500/MWh for SIR? Please explain your answer.	Yes, subject to our suggestion above to consider a quantity-limited reserve scarcity tranche.
5	Do you support the proposal to raise the price of controllable load to \$16,000/MWh? Please explain your answer.	Yes, we support a price of controllable load below the proposed new energy scarcity price.
6	Do you have any comments on the drafting of the proposed amendment?	No.
7	Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory main objective in section 15 of the Electricity Industry Act 2010.	We propose consideration of the alternative described in our response to Questions 2 and 3.
8	Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	No comment.