



MAJOR ELECTRICITY USERS' GROUP

17 May 2006

Mr John Campbell
System Operator
By email john.campbell@transpower.co.nz

Dear John

Submission on initial draft Ancillary Services Procurement Plan

1. Thank you for the opportunity to comment on the draft plan as notified in the System Operator (SO) email newsletter 2 days ago.
2. It's unclear what the advantage is of specifying a CPI-X formula, where $X=1.5\%$ provided $CPI>1.5\%$, for new long term contracts (refer new paragraphs 75 to 77). It may be that long term contracts should be constant nominal or even decreasing over time. Or there may be underlying cost drivers in excess of CPI. MEUG suggest the pricing formula for long term procurement contracts be considered on a case by case base and preferably in a competitive tender.
3. For the avoidance of doubt about the role of the CQAG, suggest deleting the last sentence of paragraph 81 that refers to a mechanism that could be misconstrued as giving the CQAG some sort of responsibility. Instead add in brackets after the word "Advisory Groups" in the prior sentence of that paragraph "(principally the CQAG)."
4. It would be helpful if the table in paragraph 82 included a further column listing the magnitude of the procurement costs involved for each ancillary service. Knowing that FK procurement costs for the last contract year were almost 4 times the value of the next costly ancillary service (IR) will help focus attention on solving the key problem with ancillary services – the lack of competitive pressures in the supply of FK.
5. Monthly reports by FK providers to the SO on cancellation or submission of new or revised offers within 2 hours of a trading period should be made public (paragraph 114) unless there is good reason not to publish those reports. If the latter is the case then the SO and FK service providers should explain why this information should not be made public.

Yours sincerely

Ralph Matthes
Executive Director