



MAJOR ELECTRICITY USERS' GROUP

4 August 2006

Jenny Walton
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on Co-generation Plant Offer and Dispatch Rules

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") consultation paper, *Review of Offer and Dispatch Rules for Co-generation Plant*, 22 June 2006. MEUG members have been consulted in the preparation of this submission. Some MEUG members will be making more detailed submissions.
2. In this submission MEUG:
 - a) Endorse the Commission description of the problem;
 - b) Note that categorising co-generation as Intermittent Generation is a viable alternative and should not be dismissed as suggested in the consultation paper;
 - c) Conclude that if all options are considered, including categorising co-generation as Intermittent Generation, the preferred option in the consultation paper is not the best solution. Therefore MEUG do not support the proposed rule changes; and
 - d) Propose an alternative solution:
 - i) A rule change to provide for co-generation to be defined as Intermittent Generation subject to case-by-case approval of the System Operator; and
 - ii) The existing ± 5 MW exemption is reviewed and the exemptions be extended until such time as the above rule change is in place.
3. The balance of this submission and the appendix commenting on the specific questions in the consultation paper set out the arguments in support of the above conclusions.

The problem

4. Co-generation plants must comply with rules that are unnecessary. For example the requirement to meet dispatch instructions to a band of ± 1 MW. In fact the System Operator has allowed, by temporary exemptions subject in one case to conditions, the dispatch compliance band to be ± 5 MW for co-generation. The added cost to all parties of co-generation plant having to comply and when in breach to follow due process is estimated in the consultation paper to be about \$123,000 per year¹.

¹ Refer paragraph 123 of the consultation paper

5. New co-generation investors face the same unnecessary compliance cost.
6. The problem is to find a way to remove these unnecessary costs and barrier to new entrant co-generation plant while at the same time maintaining Principle Performance Objectives (PPOs) and confidence in and efficiency of the spot price discovery process.

The solutions

7. An interim solution is already in place with exemptions for 3 co-generation plant. One option is to change the dispatch compliance rules to align with the exemptions. In the consultation paper this is the preferred option. MEUG do not agree with this proposal for two reasons:
 - a) First, the exemptions were a temporary measure until such time as a comprehensive solution was found. The ± 5 MW band was acceptable as a short term band aid until a longer term solution was in place. If the band aid is going to become the permanent fix as proposed then at least a review of whether the ± 5 MW is appropriate should be undertaken.
 - b) Second, there is a better solution, namely categorising approved co-generation as Intermittent Generation. This is discussed in the next 2 paragraphs.
8. The consultation paper dismisses the option of categorising co-generation as Intermittent Generation with two arguments². Those arguments and MEUG comments on each follow:
 - a) The consultation paper first argues:

"... the similarities between co-generators and intermittent generators are not close enough. That is, co-generators have a certain degree of control over their fuel input and generation output, while intermittent generators have no control whatsoever."

MEUG suggest co-generators are exactly like wind generators in that they cannot control their fuel. The assertion in the consultation paper that co-generators have a certain degree of control should have been justified by examples of such in the past. In the absence of such proof the Commission should not dismiss the option of co-generation being considered the same as wind generation and therefore categorised as Intermittent Generation.

Even if there have been some incidents when changes in the host manufacturing load and co-generation output have not been exactly in sync, the question that the consultation paper should have considered was:

Have there been incidences of changes in co-generation and host load in the past and likely in the future that will affect PPOs? And is the magnitude of that risk more than, less than or about the same as the risk and affect on PPOs of unexpected changes in wind generation?

In the absence of answers to these questions MEUG submit the Commission cannot accept the argument in the consultation paper that categorising co-generation as Intermittent Generation is not a feasible option.

From discussions with MEUG members it appears that the System Operator has never tabled evidence that co-generation related trips, at least for some plant, have resulted in events that threaten PPOs. Furthermore the System Operator has better SCADA information than the co-generators themselves. Hence this prolonged debate about why co-generation needs to be compliant with rules that have no effect on the System Operator meeting PPOs.

² Refer paragraph 34 of the consultation paper

- b) The second argument dismissing the Intermittent Generation option is:

"... the Commission is undertaking a review of the offer and dispatch rules for intermittent generators, which may result in rule changes for intermittent generators that are not appropriate for co-generators and would, therefore, not support the efficient operation of co-generators within the Rules. (Conversely this rule change for co-generators may impact on the consideration of rule changes for intermittent generators)."

This argument says even if categorising co-generation plant as Intermittent Generation makes sense, the Commission shouldn't do it because the rules around Intermittent Generation might change and other differences, yet to be discovered, between wind generation and co-generation might make this more difficult. MEUG does not believe the Commission should support this argument because it is asking the Commission to sacrifice a rule change to categorize co-generation as Intermittent Generation that will eliminate \$123,000 per annum of unnecessary costs in anticipation that some as yet undefined rule changes for wind generation are of higher value.

If co-generation is categorized as Intermittent Generation and subsequently it is found when considering further rule changes that affect Intermittent Generation that there are differences between wind and co-generation, then at that stage other solutions such as having two types of Intermittent Generation should be considered. To block the sensible solution of categorizing co-generation as Intermittent Generation for some yet unknown possible problem later is a poor reason to dismiss this option.

9. In conclusion MEUG propose an alternative solution:

- a) A rule change to provide for co-generation to be defined as Intermittent Generation subject to case-by-case approval of the System Operator; and
- b) The existing ± 5 MW exemption is reviewed and the exemptions be extended until such time as the above rule change is in place.

Yours sincerely



Ralph Matthes
Executive Director

Appendix

	Question	MEUG comment
Q1	Do submitters agree with the need to approve co-generators? If so do submitters agree with the proposed criteria for approval as a co-generator?	Yes for both: <ul style="list-style-type: none"> ▪ The consultation paper preferred proposal (that MEUG does not support); and ▪ The MEUG proposal that co-generation be categorized as Intermittent Generation
Q2	Do submitters agree that the requirement for co-generators to only have one offer tranche and that this must be offered at \$0.01 or \$0.00 provides an economic incentive to not artificially claim co-generator status?	Yes for both: <ul style="list-style-type: none"> ▪ The consultation paper preferred proposal (that MEUG does not support); and ▪ The MEUG proposal that co-generation be categorized as Intermittent Generation
Q3	Do submitters agree that approval as a co-generator should be subject to system operator approval?	Yes for both: <ul style="list-style-type: none"> ▪ The consultation paper preferred proposal (that MEUG does not support); and ▪ The MEUG proposal that co-generation be categorized as Intermittent Generation
Q4	Do submitters agree that the only basis for not approving a co-generator application should be failure to meet the criteria, adverse impact on ability to meet PPOs?	Yes for both: <ul style="list-style-type: none"> ▪ The consultation paper preferred proposal (that MEUG does not support); and ▪ The MEUG proposal that co-generation be categorized as Intermittent Generation
Q5	Do submitters agree the System Operator should be able to impose conditions on approval in order to ensure the PPOs can be met?	Yes for both: <ul style="list-style-type: none"> ▪ The consultation paper preferred proposal (that MEUG does not support); and ▪ The MEUG proposal that co-generation be categorized as Intermittent Generation
Q6	Do submitters agree the wider dispatch compliance provided in the Rules should be limited to 5MW?	No. The ± 5 MW band was acceptable as a band aid and by necessity erred on the lower bound to ensure PPOs not affected. If this becomes a permanent change in the band (ie the consultation paper proposal not supported by MEUG), or an extended exemption until a better solution is put in place (the MEUG proposal), then more work should be undertaken to find the optimal rather than accept this low risk temporary level.
Q7	Do submitters agree that the definition of bona fide physical reason should be expanded to allow an increase as well as a decrease in generating capability?	Yes if the Commission agree with the preferred proposal in the consultation paper (that MEUG does not support). MEUG recommend better use of Commission resources is to clarify if the reasons for dismissing the Intermittent Generation option are reasonable or not
Q8	Do submitters agree that the proposed definition adequately addresses co-generators' concerns over claiming a bona fide physical reason?	Yes if the Commission agree with the preferred proposal in the consultation paper (that MEUG does not support). MEUG recommend better use of Commission resources is to clarify if the reasons for dismissing the Intermittent Generation option are reasonable or not
Q9	Do submitters agree that net bidding should not be allowed?	No comment.
Q10	Do submitters consider that it would be worthwhile to investigate making improvements to the offer screen for co-generators?	Yes if the Commission agree with the preferred proposal in the consultation paper (that MEUG does not support). MEUG recommend better use of Commission resources is to clarify if the reasons for dismissing the Intermittent Generation option are reasonable or not