



MAJOR ELECTRICITY USERS' GROUP

22 September 2006

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

Dear Jenny

Submission on application to exempt e3p from IR event costs during commissioning

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") consultation paper, *Genesis' application for exemption from rule 11.5.2 of section IV of Part C (Under-frequency event costs)*, 1 September 2006. The appendix contains MEUG answers to the five questions in the consultation paper.
2. MEUG agree with the Commission that IR event charges are intended to foster efficient behaviour through the entire generation supply life-cycle and not, as Genesis Energy suggest, for "normal operation."
3. MEUG agree that there may be risks of delays to commissioning of e3p that may narrow the gap between supply and demand sufficiently to have negative market impacts. There are also strong incentives on market participants to find efficient ways to overcome those risks and possible negative market impacts. The consultation paper suggests these risks are sufficient to justify granting the exemption requested by Genesis Energy. MEUG do not agree because the possible effects are not known and have not yet been quantified; although other Commission work streams will have better defined that risk by either later this year or early next year.
4. Over and above the risk and market response noted in the preceding paragraph, Genesis have suggested if under-frequency events due to e3p commissioning occur then the company may have an incentive to delay commissioning of e3p. IR event costs during commissioning can be expected and MEUG believe Genesis should bear those. However if an unexpected problem during commissioning results in repeated under-frequency excursions and it is clear Genesis Energy will delay commissioning to avoid these recurring problems; then at that point MEUG believe the Commission should consider an exemption.
5. MEUG therefore do not agree with granting what appears to be a blanket exemption for e3p from IR event costs during commissioning. Instead MEUG suggest the Commission keep an open mind to granting an exemption if unexpected recurring under-frequency events during commissioning occur that will clearly lead to Genesis delaying commissioning of e3p.

Yours sincerely

Ralph Matthes
Executive Director

Appendix

	Question	MEUG comment
Q1	Do you have any views on what conditions, if any, should be applied?	<p>This question pre-supposes the respondent agrees that the exemption requested by Genesis should be granted. MEUG do not support the blanket exemption being granted and therefore the question of conditions is not relevant.</p> <p>Note MEUG agree with the EC (paragraph 52) that granting specific exemptions for deliberate (as opposed to unplanned) reductions in generation would be difficult to administer in practice.</p> <p>MEUG would support the EC keeping an open mind of the future granting of an exemption if during commissioning persistent problems occur. A case specific exemption with conditions could then be considered.</p>
Q2	Do you agree these are the relevant factors the Commission should take into account? If not, what factors should the Commission take into account?	Agree.
Q3	Do you agree with the Commission's assessment of the risk of negative market impacts? If not, please explain why?	<p>The consultation paper doesn't actually quantify (both MW and dollar value risk) what the security of supply risk for winter 2007 is and therefore the weighing of that risk is difficult to assess.</p> <p>MEUG note there are two work streams considering forecast supply and demand for winter 2007. Those are first, the National Winter Group. Second, the Commission annual consultation cycle on security of supply for next year and the following three years. Consultation on this is expected to commence soon with completion either before or just after Christmas.</p> <p>After these two work streams are completed the Commission will then be able to assess security of supply risk for 2007 including the risk under various e3p commissioning scenarios. Until that time the Commission has no information to weigh perceived negative market impacts in considering the exemption application.</p>
Q4	Do you agree with the Commission's summary of issues? If not, please explain why?	<p>MEUG agree with the Commission conclusion that IR event charges are intended to foster efficient behaviour through the entire generation supply life-cycle and not, as Genesis suggest, for "normal operation" (paragraph 47)</p> <p>MEUG accept the precedent that exemptions to IR event charges are acceptable if there are demonstrable negative market impacts should the exemption not be granted. As noted above (Qu. 3) MEUG do not believe the Commission has quantified the possible negative market impacts and therefore cannot make a reasoned judgement on whether to accept or decline the application.</p>
Q5	Do you agree with the Commission's reasons? If not, please explain why?	MEUG disagree with the conclusion of the Commission to grant the exemption. Our reasons are set out in paragraphs 2 to 5 of the covering letter.