

# MAJOR ELECTRICITY USERS' GROUP

7 November 2008

Maree McGregor  
Electricity Commission  
By email to [info@electricitycommission.govt.nz](mailto:info@electricitycommission.govt.nz)

Dear Maree

## **Submission on Frequency Regulation Market Development proposal**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission discussion paper *Frequency Regulation Market Development* of 22<sup>nd</sup> September 2008<sup>1</sup>.
2. The issue of frequency has been and continues to be a matter of major importance to MEUG. The volatility in frequency keeping (FK) costs, the inability to manage either the risks or the cost of frequency, the lack of competition in the provision of frequency keeping services, shortcomings with the methodology used to determine which generator shall be the frequency keeper for each trading period, constrained on and constrained off payments, and the size of the FK bands, are just some of the items which cause energy intensive companies to cite FK as a significant problem.
3. We cannot stress enough how the current ability of frequency keeping providers to exercise market power has materially affected end consumers.
4. MEUG supports (in principle) therefore the actions by the Commission to embark on a staged development process to establish a robust frequency regulation market. The caveat raised by MEUG is to ensure that whatever new FK market arrangements are introduced the outcome must deliver lower costs in the short medium and long term.
5. In the summary of the discussion paper the Ultimate Aim and the Nature of Benefits are detailed in paragraph 3.1 and 3.2. MEUG notes that in "the aims" items (a) and (h) are part of separate work streams. Further comments on these two topics are covered in paragraph 10 below.
6. In respect of the balance of aims, i.e. items (b) to (g), industrial users are likely to support these goals. There are attendant risks with some of the items and therefore every step or stage will need thorough analysis.
7. For example the concept of co-optimisation of FK with energy and instantaneous reserves appears desirable. However when the generation system or transmission system becomes stressed it is possible that "co-optimisation" will exacerbate the volatility of, or the extreme prices that emerge from SPD. If the current level of market power in the energy market is not reduced before co-optimisation of FK, energy and IR commences, then we are likely to see even more opportunities for exercise of market power.

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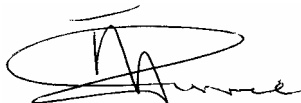
<sup>1</sup> <http://www.electricitycommission.govt.nz/pdfs/opdev/comqual/consultationpdfs/freq-reg/discussionpaper.pdf>

8. It is acknowledged that the appendices to the discussion paper deal in part with this danger but MEUG suggests there is enough risk and uncertainty to justify the Commission commissioning a robust peer review of the six appendices to ensure that all risks have been appropriately evaluated. It is quite important that observations which suggest that the chosen path for New Zealand's frequency market development cannot handle fast and slow reserves are carefully researched. There may be serious implications for system security if the co-optimisation process cannot distinguish between fast and slow reserves.
9. MEUG notes that there are a number of "flags" waved within the appendices which do not seem to have been picked up in the cost benefit analysis process. Some further work or review by a specialised group of experts to explore these issues and check if any other areas need additional work would be worth considering. MEUG does not have the resources to undertake this type of study.
10. In respect of "aim (a)" in paragraph 3.1, energy intensive users support the review of frequency keeping standards. It is difficult to disassociate such a review from the Frequency Regulation Market Development process as a change in the standard and the levels of variation will materially impact on the shape and form of a new form of regulation. Therefore MEUG's concern is that such a review needs to be undertaken in tandem; if not before the regulation market is put in place. Obviously that has serious implications for those parties who pick up the excessive and volatile costs of the current frequency keeping service and some interim measures to keep downward pressure on FK costs may need to be considered.
11. In respect of (h) in paragraph 3.1, the issue of causer costs is a contentious subject. However a separate work stream is to study whether causers of frequency excursions including those which will arise from intermittent generation and any subsequent flow on impact on generators with AGC capabilities should meet the costs of such disturbances. Given the significance of FK costs it is likely that there will be a high level of support for the costs to be allocated to the causers rather than socialised over all consumers.
12. If any changes were contemplated to the incidence of FK charges it is highly probable that changes to the frequency regulation market would become inevitable.
13. MEUG therefore believes that within the staged approach being outlined the outcomes of the work streams associated with items (a) and (h) be incorporated, if appropriate, with the progress on (b) to (g). An integrated development plan is more likely to lead to optimal outcomes.

**Suggested questions for submitters to consider**

14. MEUG has considered the four questions posed in paragraph 4.1. At this stage we believe a response would be premature and suggests that appendix A needs a review by experts and then further commentary. Appendix A makes a variety of assumptions which have not been fully evaluated. Several of the other appendices also make assumptions without supporting evidence or argument and the potential downsides appear to be ignored.

Yours sincerely



Terrence Currie  
Chairman