



MAJOR ELECTRICITY USERS' GROUP

14 January 2010

Lisa DuFall
Electricity Commission
By email to submissions@electricitycommission.govt.nz

Dear Lisa

Submission on Annual Security Assessment 2009

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission consultation paper – *Annual Security Assessment 2009* published 18th December 2009¹. MEUG agrees with the primary conclusions in the consultation paper that:
 - “There is no need for the Commission to procure Reserve Energy for 2010, 2011 or 2012 at this point” (refer paragraph 7.1.4); and
 - “Projected technical capacity margins do not indicate a clear need for Commission procurement of Reserve Capacity for 2010 or 2011 at this point. Although the projection for 2011 is tight, the baseline is still above the security threshold. Further, there is still time for the market to provide additional peaking capacity (through investment in generation and/or demand-side resources)” (refer paragraph 7.2.5).
2. The consultation paper introduces a market capacity assessment in addition to the technical capacity considered in prior years. That is a useful aspect to consider though the assessment needs to be treated cautiously. For example more analysis based on the actual hedge contracts between suppliers would allow an assessment of the commercial incentives to make available thermal units. MEUG suggest use of the phrase “serious concerns” about peak security during winter 2012 (paragraph 7.2.10) is an overstatement. A more accurate assessment would have been that “the risk is being actively monitored and policy options being considered.” The latter text reflects the ongoing work by the industry including consumers under the coordination of the Commission and System Operator to assess the risk and options to manage the risk related to insufficient thermal unit commitment.
3. One of the options to manage insufficient unit commitment that is likely to be implemented by 2012 is greater demand side response. In our view the consultation paper should have given more recognition to that option. The Commission has in other consultation papers² and as part of the Market Development Programme considered improved demand side response as a high priority. One of the six specific new matters required to be in the Electricity Participation Code within the first year of the Code coming into effect (s.45 (2) (d) of the Electricity Bill) are “mechanisms to allow participants who buy electricity on the wholesale market (called the demand-side) to benefit from demand reductions.” One of the scenarios the Commission could have tested was the impact of greater demand side response. This would provide some, if not all, offset to the risk there will be no change in the incentives on suppliers to have adequate thermal units committed.

¹ Refer <http://www.electricitycommission.govt.nz/consultation/asa-2009/view>

² Refer EC consultation paper on Dispatchable Demand published 25th September 2009
<http://www.electricitycommission.govt.nz/consultation/dispatchable-demand>

4. This year will involve significant policy and institutional changes that will change how dry-period risks are managed. The new Electricity Authority will need to completely review the Security of Supply Policy to take into account the change in ownership of Whirinaki, proposals for floor prices and reimbursement of consumers if public savings campaigns are triggered, and likely improved information available to the regulator to monitor the market. Those changes will build on the work of the Electricity Commission to date and should provide better management of dry-period risk in 2011 and later years. While this year is a transition year and the Commission assessment is that there is no need to procure energy and reserves, events can change dramatically. An unexpected six week extreme dry spell coupled with key generation or transmission outages would lead to a high risk to security of supply. MEUG note that while the Commission must commit resources to a very intensive workload to assist prepare a Code and continue work on the Market Development Programme, it must also continue a high level of surveillance on the risk of emerging security of supply risks.

Yours sincerely



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