



MAJOR ELECTRICITY USERS' GROUP

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Darryl Renner
Director, Systems Operations and Common Quality
Electricity Authority
By email to submissions@ea.govt.nz

Dear Darryl

Consultation Paper – Efficient procurement of extended reserves

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper "Efficient procurement of extended reserves" published 2nd October 2012¹. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. Responses to the questions in the consultation paper follow:

Question	MEUG response
Q1. Do submitters agree with the list of identified concerns? If not why not?	<p>Yes subject to the following two comments.</p> <p>First, we agree "equivalence" in paragraph 2.4.1(b) is a concern but not for the reasons explained in that paragraph. For MEUG the problem with the current equivalence provisions in Part 8 is that they do not facilitate re-allocation of obligations to deliver the lowest cost mix of needed extended reserves. The reasons for this are probably because:</p> <ul style="list-style-type: none">• Uncertainty to participants around the decision making process by the system operator to have an equivalence arrangement granted. There are no precedents for AUFLS equivalence arrangements and the first party to make an application will incur high transaction costs;• There is the significant risk of being gouged by distributors exercising market power.

¹ <http://www.ea.govt.nz/our-work/consultations/psocq/efficient-procurement-extended-reserves/>

Question	MEUG response
	<p>Second, the current regime, that is in effect a mandated administrative approach, fails to link the cost of providing reserves with exacerbators that cause the need for AUFLS. Extended reserve events are caused by unforeseen transmission and or generator asset or production failures. Those parties should bear the cost of AUFLS rather than load disconnected.</p>
<p>Q2. What level of targeting do distributors consider is achieved in practice?</p>	<p>No comment.</p>
<p>Q3. Do you agree with the Authority's conclusions regarding relatively low cost measures? If not why not?</p>	<p>This question refers to paragraph 4.1.18 (b) that states "Relatively low cost measures to improve the allocation of other loads to AUFLS could be beneficial, especially in respect of the first block."</p> <p>MEUG agrees and notes it may also be feasible to allocate the first three blocks of a four x 8% regime to households based on the results graphed in figure 3: Estimated North Island residential load vs total island GXP load. MEUG notes that table 1 reports the average unit cost for a 2 hour interruption for residential customers of \$5,000/MWh is half that of the next highest load category of large non-residential customers.</p>
<p>Q4. Do you agree that distributors and direct connects should be responsible for providing extended reserves in both islands? If not why not?</p>	<p>In the context of the discussion in paragraph 5.2.3 to 5.2.6 we assume this question could be restated "do you agree distributors and direct connects rather than retailers should be responsible for implementing an appropriate extended reserves regime in both islands?" In that case our answer is yes though as market mechanisms are introduced there should be no barriers to retailers and aggregators entering those markets.</p>
<p>Q5. Do you agree that there are no real impediments to distributors exchanging obligations? If not why not?</p>	<p>It does appear there are no impediments to distributors currently exchanging obligations without any financial transactions. The fact no such arrangements have been implemented is either due to distributors not understanding that option, or a lack of financial incentives, or at the minimum an ability to recover transaction costs. The solution therefore is to introduce some financial incentives subject to:</p> <ul style="list-style-type: none"> • The scale of any market approach being commensurate with the need and proven benefits over an administrative approach for each block. For example see MEUG response to Q3 on the possibility of using mandated obligations on residential customers for first tier blocks. • Careful consideration of market power concerns will be needed².

² Paragraph 5.3.3 of the consultation paper recognises limited distributor incentives and market power concerns need to be considered.

Question	MEUG response
	<ul style="list-style-type: none"> Ensuring procurement costs are assigned to Transpower and generators as exacerbators consistent with the approach used for Instantaneous Reserves.
<p>Q6. Do you agree that options A to D are the plausible range of options? If not what alternatives are plausible?</p>	<p>For completeness the status quo could be added to the far left hand side in figure 7.</p> <p>Figure 7 treats each option as being discrete. MEUG suggests it may be least cost to apply different options to each extended reserve block. This may change over time as improved market mechanisms are developed.</p>
<p>Q7. Do you agree with the Authority's preliminary conclusions? If not why not?</p>	<p>Only partly.</p> <p>We agree further investigation of tender-based options should be considered. This should not be considered the best long term solution. The Authority should maintain a watch on more sophisticated market mechanisms as technology improves.</p> <p>We do not think an obligation and trade basis using equal percentage obligations on all grid connected parties is much different from the status quo because it fails to link exacerbators with the cost of providing extended reserves.</p> <p>An evolutionary approach to introducing market mechanisms should be considered. As noted in response to questions 3 and 5 it may be that for the first few blocks an administrative approach mandating obligations on residential, customers may be lowest cost. For the last or last few blocks a tender-based approach could be considered.</p>

Yours sincerely



Ralph Matthes
Executive Director