



MAJOR ELECTRICITY USERS' GROUP

12 April 2013

Shane Tennett
Security of Supply & Emergency Manager
System Operator
By email to Shane.Tennett@transpower.co.nz

Dear Shane

Proposed update to the Security of Supply Information and Forecasting Policy

This is a submission by the Major Electricity Users' Group (MEUG) on the system operator paper "Proposed Security of Supply Forecasting and Information Policy" issued 9th January 2013¹ along with a summary of changes compared to the existing SoSIFP².

The most important proposed change covers how to incorporate "contingent hydro storage" into the annual security of supply assessment and weekly security of supply reports. This is difficult because by definition contingent hydro storage cannot be accessed until the emergency zone is breached and yet access to contingent hydro storage will materially reduce supply risk. MEUG:

- Agrees with the proposal to show the emergency zone excluding contingent hydro storage³, to represent contingent hydro storage as negative hydro storage⁴ and to determine the risk meter excluding contingent hydro storage⁵.
- Recommends that once storage falls below the emergency zone the system operator commence publishing a new storage graph with a new 10% Hydro Risk Curve incorporating contingent hydro storage. This new curve could be called the "Emergency Zone with contingent hydro storage". The new graph and curve would be additional to publishing the existing Emergency Zone with contingent hydro storage illustrated as negative storage. The new graph and curve would assist interested parties clearly understand the step change reduction in risk, once contingent hydro storage has been accessed.

¹ <http://www.systemoperator.co.nz/n6025.274.html>, and

http://www.systemoperator.co.nz/f6025.80527024/Proposed_SOSFIP_-_9_Jan_2013.pdf

² http://www.systemoperator.co.nz/f6025.80527040/Proposed_SOSFIP_9_Jan_2013_-_change_summary.pdf

³ Proposed SoSIFP, clause 6.1 (d)

⁴ Ibid, clause 6.1 (f) and diagram in clause 6.6

⁵ Ibid, clause 7.1(a)

- Notes that access to contingent hydro storage at Lakes Pukaki (550 GWh) and Hawea (65 GWh) have significantly altered security of supply risk and accordingly there should be a review of the trigger points for an Official Conservation Campaign and Customer Compensation Scheme⁶. For example the \$10.50 per week minimum compensation for customers with category 1 and 2 metering installations set by the Electricity Authority was calculated before these contingent hydro storage reserves became available. Possibly the \$10.50 per week per retail customer payments should not be triggered until storage is less than the “Emergency Zone with contingent hydro storage”. Or the payment should be a lesser sum if actual storage is less than the standard Emergency Zone but higher than the “Emergency Zone with contingent hydro storage” and then increase once the latter has been breached.

As this is outside the remit of the system operator, MEUG will separately discuss the possibility of a review of the minimum compensation payment with other participants and the Electricity Authority. It's important the system operator recognise this issue because it supports the proposal in the bullet point above for a new graph and curve once the emergency zone is breached illustrating the “Emergency Zone with contingent hydro storage”.

The risk meter⁷ remains calibrated solely to storage. This one dimensional approach has to date been pragmatic. The system operator understands that security of supply risk is multi-dimensional, eg the diagram from the system operator web site⁸ illustrates how generation and transmission capacity and availability, contracted fuel and market behaviour in combination with hydro storage can affect risk:



It is possible that the risk meter based solely on hydro storage levels may be at say “alert” status when the other primary factors of contracted fuel, asset capacity and availability, and market behaviour are either high or conservative and a more reasonable status would be “watch”. MEUG suggests the system operator undertake research on how the risk meter might be calibrated against multiple key factors.

⁶ Code, Part 9, subpart 4

⁷ Proposed SoSIFP, clauses 7.2 and 7.4

⁸ <http://www.systemoperator.co.nz/presentations/security-of-supply-animation/>

Two other submissions follow:

- The reference in clause 3.2 to the duty of care being that of a “reasonable and prudent system operator” should be cross-referenced to the original legislative, regulatory or contractual source. The question of what duty of care the system operator has in its various roles is contentious and hence why we request this clarification.
- It would be useful if the system operator advised the market that a decision had been made to review the hydro risk curves (clause 6.4) ahead of that work being undertaken. This will give certainty to the market that a review had been triggered rather than participants having to speculate. When announcing a review had commenced the system operator should also advise when the results of that review would be published. A review process need not result in any change to the hydro risk curves; it's the knowledge a review has commenced that's important.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a long horizontal stroke extending to the right.

Ralph Matthes
Executive Director