



# MAJOR ELECTRICITY USERS' GROUP

23 July 2013

Dr John Rampton  
General Manager Market Design  
Electricity Authority

By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear John

## Consultation Paper—Temporary changes to the configuration of the grid

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper<sup>1</sup> "Temporary changes to the configuration of the grid" dated 11<sup>th</sup> June 2013. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree that the problem is that there is no express power in the Code for Transpower to make a temporary change to the configuration of the grid without notice to assist the system operator and participants in managing security of supply? If not, why not?	Not so much a problem as a question as to whether the administrative costs of the EA gazetting urgent code amendments for the emerging risk to future security of supply in early 2012 and 2013 might be better managed for similar future events by changes to the Code.
2. Do you agree that that the Authority should be addressing the problem identified in this paper? If not, why not?	Agree the question as defined in MEUG response to Q1 above should be considered.
3. Do you agree with the objectives of the proposed amendment? If not, why not?	Agree with objective of removing unnecessary administrative burdens to manage consideration of possible urgent and temporary grid re-configurations for future events similar to that of 2012 and 2013.

<sup>1</sup> <http://www.ea.govt.nz/dmsdocument/15083> found at <http://www.ea.govt.nz/our-work/consultations/transmission/temporary-changes-to-configuration-of-the-grid/>

Question	MEUG response
	<p>There are two other relevant policy objectives:</p> <ul style="list-style-type: none"> <li>• To ensure there are incentives on proponents of urgent temporary grid re-configurations to avoid free-riding. MEUG suggests this is best achieved for the proposed code amendments by requiring beneficiary's pay ; and</li> <li>• To ensure regulatory decisions in cases of urgency are reviewed after the event to reinforce incentives on the regulator for robust analysis.</li> </ul> <p><u>Beneficiary's pay</u></p> <p>Market participant proponents of such urgent and temporary grid re-configurations should pay:</p> <ul style="list-style-type: none"> <li>• The incremental costs to the system operator of undertaking a net benefit test, publicising and implementing the grid change; and</li> <li>• Any actual detriments incurred to other parties, eg if some participants change from n-1 to n security and an event occurs where they lose power but would not have had there not been a grid re-configuration, then the affected parties should be compensated by the parties that benefited from the temporary grid re-configuration.</li> </ul> <p>MEUG suggests the proposal can be improved by requiring market participant proponents that request an urgent and temporary grid re-configuration to pay the incremental costs for consideration and implementation of the proposal. If the proponent is the system operator or the Electricity Authority then the costs would be absorbed respectively within SOSPA or the EA vote.</p> <p>We do not see any risk to applying a beneficiary's pay approach to the proposed Code amendments affecting emerging hydro risk events that may result in forced black-outs. There are already sufficient regulatory tools when the Hydro Risk Curve (HRC) is reached to give confidence to the market.</p>

Question	MEUG response
	<p>When national or island lake storage is above the relevant HRC the onus of proof and therefore the cost of considering an implementing temporary grid re-configurations should fall on the proponents. If a beneficiary's pay approach had been used for the 2012 and 2013 events then the south island generators and or retailers would have met the incremental costs of the system operator undertaking engineering studies and a net benefit test. If the grid re-configurations had been made an subsequently a customer lost supply when they otherwise would not have, then the south island generators or retailers would have reimbursed the appropriate south island retailer to then compensate the affected customers.</p> <p><u>System operator decisions reviewed</u></p> <p>Urgent and without notice (or s in this case reduced notice compared to current practice) regulatory interventions should be subject to after the event reviews. This ensures regulators, or in this case the system operator as an agent of or second tier regulator, are accountable and will exercise options to take urgent action with little or no notice knowing those decisions will be formally reviewed.</p> <p>This ex post review is an important benefit of the current approach of using urgent Code changes on an ad hoc basis. The proposed change fails to have any systematic and robust review of system operator decisions under the new provisions. MEUG suggests the code amendment specifically require the system operator to conduct an ex post review of decisions, to consult on that review and to formally report to the EA including comments on submissions received.</p>
<p>4. Do you agree that the proposed Code amendment is the best approach for achieving the objectives outlined in section 3.1?</p>	<p>No. Improvements can be made by including proponents pay and an ex post review of system operator decisions where a change is made pursuant to new cl. 12.116AA as discussed in response to Q3 above.</p> <p>One minor point: Note there is a drafting change needed in new cl. 12.116AA (3) (b) where "specifies" should read "specified".</p>

Question	MEUG response
5. Do you agree that the benefits of the proposed amendment outweigh the costs?	The benefits may outweigh the costs; however MEUG suggests greater net benefits will be achievable if the improvements discussed in MEUG response to Q3 are included.
6. Do you agree with the Authority's assessment that the proposed amendment is preferable to these options? If not, please explain your preferred option and your reasons for preferring that option.	No, because there is a fifth and in our view better alternative discussed in MEUG response to Q3.
7. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act? If not, why not?	<p>No. We think in some instances temporary grid re-configuration proposals by participants will have material competition effects. Therefore the consultation paper view that there are "no implications" for competition in the electricity industry<sup>2</sup> is incorrect.</p> <p>MEUG's solution to the risk of material competition effects is to include a beneficiary's pay element into the Code amendment as discussed in response to Q3.</p>

3. We look forward to considering the submissions of other parties on this proposal and the response of the Authority to submissions.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>2</sup> Consultation paper, table 2, row 3, p11