



# MAJOR ELECTRICITY USERS' GROUP

23 August 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 – Amendments to the procurement plan

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper<sup>1</sup> "Amendments to the procurement plan" dated 9<sup>th</sup> July 2013. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. MEUG supports the proposed amendments apart from two aspects:
  - a) If the estimate of \$10,000 per site for availability for back-up SFK<sup>2</sup> service is correct then amending the procurement plan to allow the system operator to procure back-up SFK is reasonable. MEUG cannot agree though because we have no understanding of how the \$10,000 was estimated or the credibility of the source of the estimate. Therefore MEUG cannot support the proposed amendment to the procurement plan until we have sufficient information to give us confidence actual availability costs will be of that order.
  - b) On the assumption the Authority will provide sufficient information to give end customers more confidence on estimates of availability costs for back-up SFK; two broader policy issues still need to be addressed before the Authority should agree to the significant market design change of having back-up SFK procured. Those policy design issues are:
    - i) Who pays the availability charges for back-up SFK? and
    - ii) Who pays for back-up SFK when dispatched in an event MFK<sup>3</sup> fails?
3. "Who pays" is not an issue for the procurement plan but should be considered under the section headed "Allocating ancillary service costs" in Part 8 of the Code<sup>4</sup>.

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<sup>1</sup> <http://www.ea.govt.nz/dmsdocument/15259> found at <http://www.ea.govt.nz/our-work/consultations/psocq/amendments-procurement-plan/>

<sup>2</sup> SFK refers to Single frequency keeping

<sup>3</sup> MFK refers to multiple frequency keeping

4. There seems to be a presumption in the consultation paper that back-up SFK availability charges and actual dispatch costs fall under the overall service of frequency keeping and therefore who pays is covered by the existing frequency keeping arrangements, ie purchasers<sup>5</sup>.
5. MEUG suggests there are feasible alternatives to who pays that should be considered. For example a causer pays approach would lead to the MFK service provider that failed bearing back-up SFK costs. The MFK service provider that failed could be either a contracted frequency provider and or the system operator as provider of MFK co-ordination and dispatch services. Having MFK service providers pay when back-up SFK is dispatched creates an incentive on those parties not to fail.
6. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree with the Authority's assessment of the proposed changes to definitions to remove technology-specific references from frequency keeping provisions? If not, what alternative assessment would you make and why?	MEUG agrees with the statement <sup>6</sup> "the Authority does not consider the proposed changes to the procurement plan would have any material costs".  As stated in the paper we accept these changes in definition are a necessary step, but not the only step needed, to remove barriers to alternative technologies to compete as frequency keepers.
2. Do you agree with the Authority's assessment of the proposed changes to the level at which MFK compliance is measured? If not, what alternative assessment would you make and why?	MEUG accepts the expert view of the system operator and Authority.
3. Do you agree with the Authority's assessment of the proposed provision of back-up SFK? If not, what alternative assessment would you make and why?	Refer detailed comments in paragraph 2 to 5 above regarding MEUG's opposition to amending the procurement plan to allow for procurement of back-up SFK until we are given sufficient information to have confidence the estimate of \$10,000 per site for availability charges is reasonable and the Authority has considered "who pays?"
4. Do you agree with the Authority's assessment of the administrative changes? If not, what alternative assessment would you make and why?	MEUG accepts the view of the Authority that <sup>7</sup> "the changes are administrative in nature, that they improve clarity and that no costs will arise as a result of these proposed changes."

<sup>4</sup> This section comprises clauses 8.55 to 8.70 with some, not all, of the clauses relevant to frequency keeping.

<sup>5</sup> Code, Part 8, clause 8.58

<sup>6</sup> EA consultation paper paragraph 3.3.9

<sup>7</sup> Ibid, paragraph 3.3.22.

Question	MEUG response
<p>5. Do you agree with the Authority's overall assessment of the proposal? If not, what alternative assessment would you make and why?</p>	<p>Provided:</p> <p>(i) We are given further information to have confidence in the estimated cost of back-up SFK availability charges; and</p> <p>(ii) The Authority considers if the Code needs changing to answer the questions "who pays" for back-up SFK availability and when dispatched,</p> <p>Then we agree the proposed changes along with other changes already in place<sup>8</sup> or underway<sup>9</sup> should lead to lower frequency keeping costs and this benefit is likely to be greater than the additional costs associated with back-up SFK in the event of MFK failure.</p>
<p>6. Is there an alternative to any of the individual changes proposed by the system operator that you consider better meets the objectives of the proposal? If so, please describe the alternative and why you prefer it.</p>	<p>Appendix B, the System operator assessment of the proposed changes, is well presented, comprehensive and a very useful summary.</p> <p>MEUG has no suggested changes apart from removing the ability to procure back-up SFK until the issues set out in paragraphs 2 to 5 and repeated in responses to Q3 and Q5 are adequately considered.</p>
<p>7. What comments do you have on the proposed drafting of the changes, as set out in Appendix C? If you disagree with what is proposed, please provide alternative drafting (a suggested format for drafting comments is set out in the table below).</p>	<p>No comments on the drafting.</p>

7. 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

<sup>8</sup> E.g. MFK in North Island that commenced 1<sup>st</sup> July 2013.

<sup>9</sup> E.g. MFK planned to commence in South Island on 4<sup>th</sup> August 2014 (consultation paper paragraph 2.16) and other changes to the Code to allow alternative technologies to compete as frequency keepers.