



# MAJOR ELECTRICITY USERS' GROUP

19 December 2014

Fraser Clark  
General Manager Market Services  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Fraser

## Consultation paper – Limiting the liability of the extended reserve manager

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper<sup>1</sup> "Limiting the liability of the extended reserve manager" published 25<sup>th</sup> November 2014. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. MEUG responses to the two questions in the paper follow:

Question	MEUG response
1. Do you support the extended reserve manager's per event and annual liability limits being the same? If you do not support the proposal please provide reasons with your answer.	Agree the event and annual limits should be the same.  That is MEUG agrees with the analysis in paragraphs 3.7.4 and 3.7.5 and table 6 where given very low frequency that ERM is expected to materially adversely affect others then the ratio of per event liability to annual liability should be 100%.
2. Do you support the extended reserve manager's per event and annual liability limits being \$550,000? If you do not support the proposal please provide reasons with your answer.	The proposed limit could be lower.  Based on the expected mid-point annual revenue for the ERM of \$300,000 (table 5) and a range for the ratio of annual liability cap to revenue of between 1.5 and 2 (paragraph 3.5.4) then the mid-point per event and annual liability limit is \$525,000.  The paper in assessing any qualitative factors (section 3.9) concluded there were none. On that basis the liability limit should be \$525,000.

<sup>1</sup> Document URL <http://www.ea.govt.nz/dmsdocument/18763> found at <http://www.ea.govt.nz/development/work-programme/wholesale/efficient-procurement-extended-reserves/consultations/#c14203>

Question	MEUG response
	MEUG's own assessment of the qualitative factors is that the numerous reviews of the ERM outputs listed in paragraph 3.9.3 and the likely resources the EA and System Operator will employ to manage risks in implementing the new extended reserves regime would tend to favour a lower liability limit below \$525,000.

3. This paper was a reminder that the proposed liability limit, on both an event and per annum basis for the ERM of \$550,000 and MEUG's suggestion it should be \$525,000 or lower are significantly higher as a proportion of annual revenue by the service provider and potential material harm and event frequency than the liability limits on the System Operator<sup>2</sup>. As submitted last week on the draft appropriations request we reinforce the need to put the System Operator Service Provider Agreement to be renewed by 1<sup>st</sup> July 2015 onto a more commercial footing and that should include liability limits.

Yours sincerely



Ralph Matthes  
Executive Director

<sup>2</sup> See table 9 of the paper for a comparison of service provider liabilities, sourced from report by TDB Advisory for the Electricity Authority, Liability Arrangements in the Electricity Industry, 11<sup>th</sup> March 2014 (document URL <http://www.ea.govt.nz/dmsdocument/18082> found at <http://www.ea.govt.nz/code-and-compliance/compliance-framework/>) that recommended "for the system operator, limits in the range of \$2m to \$5m per event and \$10m to \$20m per annum." That recommendation was noted in the EA final report, Review of the Electricity Authority's compliance framework – A review of the Electricity Industry (Enforcement) Regulations 2010, 27<sup>th</sup> May 2014 (piii) "the liability limit for the system operator should be materially increased", (URL <http://www.ea.govt.nz/dmsdocument/18081>) and same web address as above).