



MAJOR ELECTRICITY USERS' GROUP

4th October 2016

Fraser Clark
General Manager Market Services
Electricity Authority
By email to submissions@ea.govt.nz

Dear Fraser

Consultation Paper – Proposed extended reserve Code amendments

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper, "Proposed extended reserve Code amendments", 22nd August 2016.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG agrees all twelve issues identified in the paper are valid operational matters to be clarified or remedied if benefits exceed costs and the net benefit exceeds that of all other feasible alternatives.
4. MEUG has no concern with issues 1 to 11 and agree with the proposed solutions for those.
5. The paper describes issue #12 as:

"The Code does not allow the extended reserve manager and system operator, when transitioning from the current AUFLS system to the new extended reserve regime, to require asset owners to provide information for the purpose of that transition."²
6. The solution proposed for issue #12 is a new cl. 8.54TD that would enable the Extended Reserves Manager (ERM) and the system operator to request information for the transition from the current regime to the regime gazetted in August 2014 and currently being implemented. The paper identifies no practical alternatives.³

¹ URL <http://www.ea.govt.nz/dmsdocument/21197> at <http://www.ea.govt.nz/development/work-programme/risk-management/efficient-procurement-extended-reserve/consultations/#c16167>

² Consultation paper pp13-14.

³ Ibid, paragraph 4.36(h).

7. MEUG suggests that there is an alternative for issue #12 namely the status quo. In that alternative additional information required by the ERM and or system operator to implement the new regime would, in the absence of participants providing required information voluntarily, be the subject of a Code amendment proposal stipulating the information required and the benefits and costs of participants supplying that information. The status quo alternative has a higher transaction cost and could delay implementation relative to introducing a new cl. 8.54TD; however it also has benefits:
- a) New cl. 8.54TD gives the ERM and system operator sweeping powers to ask for information that has not yet been identified, may require considerable costs to a participant to gather, and the participant has no assurance the information requested would be required to be released if it had been subject to a specific Code amendment decision making process. In other words cl. 8.54TD carries the risk of being a licence for fishing expeditions by a service provider. This is not, in the view of MEUG, best practice regulation.
 - b) Retaining the status quo incentivises the ERM and system operator to take care that any additional information they require is justified. They will be incentivised to persuade participants to provide information voluntarily. Ideally there should be a win-win for the participant and the market. That may not always be the case. Nevertheless MEUG believes there is a degree of goodwill and pragmatism within the industry to assist implement the new regime given the increasing risks of unexpected black-outs with the current regime. Giving service providers or the Authority a licence for fishing expeditions on operational matters may erode that goodwill not just for implementing this project but possibly other work requiring co-operation on implementing operational changes.
- If the status quo is retained that will leave only information that cannot be elucidated voluntarily from participants as requiring a Code amendment proposal. The use of a Code amendment proposal mechanism is probably the best approach to consider requests for any such non-trivial and controversial information requests.
8. MEUG is committed to the successful implementation of the new extended reserves regime because we recognise the current approach needs to change in terms of physical security settings and ongoing lowest cost use of resources to achieve the new settings. We look forward to further engagement on this important topic.

Yours sincerely



Ralph Matthes
Executive Director