



# MAJOR ELECTRICITY USERS' GROUP

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Dear Bennet

## Feedback on draft Security of Supply Annual Assessment 2016

1. This is a submission by the Major Electricity Users' Group (MEUG) on the System Operator draft<sup>1</sup> Security of Supply Annual Assessment 2016 (the "draft ASA 2016"). MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
2. On 6<sup>th</sup> August 2015 Genesis Energy announced planned future retirement of the remaining 2 Rankine units at Huntly by end of 2018. Within a fortnight Contact Energy announced<sup>2</sup> the closure of Otahuhu B power station effective 30<sup>th</sup> September 2015.
3. Genesis left open the opportunity to revise the latter retirement date if suitable commercial arrangements can be concluded (text underlined for emphasis)<sup>3</sup>:  

*"Genesis Energy Chairman Dame Jenny Shipley said, 'While the Huntly Power Station has been, and remains, a great asset for Genesis Energy, the Board has taken the decision to retire the remaining Rankine Units. New Zealand's changing electricity market has seen improvements in the management of dry year events, along with a significant decrease in coal-fired generation, and by 2018 the two coal units will no longer be required unless market conditions change significantly.'"*
4. It was therefore no surprise that the draft ASA 2016 has a forecast margin between supply and demand from winter 2019 onwards below the security standards prescribed in the Code<sup>4</sup>.

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<sup>1</sup> Draft circulated to interested parties by email on 15<sup>th</sup> February 2016.

<sup>2</sup> Contact Energy media release, 17<sup>th</sup> August 2015.

<sup>3</sup> Genesis Energy media release, 6<sup>th</sup> August 2015.

<sup>4</sup> Refer Electricity Industry Participation Code 2010, Part 7 cl. 7.3(2), <http://www.ea.govt.nz/dmsdocument/17986>

5. If the ASA 2016 was completed later this year then the outcome of industry negotiations currently underway to consider if market conditions have changed would be known and the uncertainty mentioned in the draft report<sup>5</sup> removed:

*“In the medium to long-term the WEM forecasts are uncertain. The base-case scenario assumes that the Huntly Rankine units will be decommissioned at the end of 2018, and in this scenario the New Zealand and South Island WEMs are very likely to be reduced to a level below the standard. However, it is still quite possible that circumstances will change and the Huntly Rankine units will not be decommissioned in the manner that has been announced.”*

6. The System Operator has a discretion to undertake more than one ASA per year<sup>6</sup>. MEUG suggests a revised ASA 2016 be published in 2016Q3 that incorporates the outcome of the current negotiations. This would be useful for end consumers, market participants, investors and regulators to understand the materiality of the conclusion of current commercial discussions. If the forecast margins for the next five years are still below the security standards then MEUG suggest revised ASA be completed every 6 months until such time as the forecasts exceed the security standards.
7. There is a second reason a revised ASA 2016 in 2016Q3 would be timely. That is to consider any revised change in the 10 year demand forecast following publication by the Ministry of Business, Innovation and Employment (MBIE) of the inaugural Electricity Demand and Generation Scenarios (EDGS)<sup>7</sup> due later this quarter.
8. The next three paragraphs discuss other aspects of the draft ASA 2016 demand forecast MEUG that on review might lead to a lower longer term demand path and or different peak demand forecast.
9. First there is a difference in the 2016 starting base between the draft ASA 2016 and the final ASA 2015 from last year. The latter expected demand in 2016 to be 42,359 GWh. The draft ASA 2016 demand is 1.3% higher at 42,918 GWh. Each subsequent year's forecast GWh pa demand in the draft ASA 2016 is higher than last year's ASA. However the forecast North Island peak and South Island peak demands are almost and in some cases identical to last year's forecast. A revised ASA 2016 in 2016Q3 could provide an updated demand forecast reviewing this assumed change in the ratio of peak to energy demand along with a reconciliation with MBIE's EDGS forecasts.
10. Second there was a change in August 2015 to Transmission Pricing Methodology<sup>8</sup> for the Upper North Island (UNI) Regional Coincident Peak Demand (RCPD) from highest 12 to 100 annual peaks. That will affect transmission prices from 1<sup>st</sup> April 2017 using the RCPD measuring period from start of last September to end of August this year. As a result forecast peak demand response from this winter onwards in the UNI will be less compared to that assumed in ASA 2015. Therefore the assumption forecast peak demand has not changed between ASA 2015 and the draft ASA 2016 should be reviewed.

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<sup>5</sup> Draft ASA 2016, section 7 Conclusions.

<sup>6</sup> Cl. 7.3(1) (a) of the Electricity Industry Participation Code requires preparation and publication of an ASA “at least annually”, therefore there is no constraint on more than one ASA per year.

<sup>7</sup> Refer <http://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/modelling/electricity-demand-and-generation-scenarios?searchterm=EDGS>

<sup>8</sup> Refer New Zealand Gazette, Notice of the Electricity Industry Participation Code Amendment (Transmission Pricing) 2015, 27<sup>th</sup> August 2015, <http://www.ea.govt.nz/dmsdocument/19854>

11. Third it's likely to be a case of when rather than if batteries will become economic to manage peak demand. The assumption of a fixed 176 MW demand response for the highest 200 half hours for the 10 year forecasting horizon may be too conservative. The MBIE EDGS work and or any final report from the joint Electricity Networks Association and MBIE Smart Grid Forum<sup>9</sup> might give further insights into whether the forecast peak demand response assumption should be changed. MEUG also expects adoption of service based pricing by distributors, more retailer offerings to mass market and SME consumers reflecting in part at least spot prices and deployment of Advanced Metering Infrastructure will lead to higher absolute levels and more diversity of demand response. Whether that is materially more than the current assumption of 176 MW by winter 2019 could be investigated in a revised ASA 2016Q3.

Yours sincerely



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<sup>9</sup> Refer <http://www.mbie.govt.nz/info-services/sectors-industries/energy/electricity-market/nz-smart-grid-forum?searchterm=Smart+Grid+Forum>