

5 July 2018

Bennet Tucker
Market Security Services Manager
System Operator
By email to system.operator@transpower.co.nz

Dear Bennet

Thermal Fuel Limitations in the HRCs

1. This is a submission by the Major Electricity Users' Group (MEUG) on the System Operator consultation document, Thermal Fuel Limitations in the Hydro Risk Curves (HRCs), June 2018.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree with the proposed treatment of operational limitations to thermal fuel availability in the HRCs, and if not, why not?	<p>MEUG agrees to the first proposal to make “no changes to the current HRC input assumptions relevant to thermal fuel and operational limitations as part of modelling the supply risk assessment.” We agree with the view in the paper that:</p> <p>“Following this investigation, we found no reason to change the assumption – we are still confident there is sufficient physical thermal fuel available, noting that in some instances the commercial arrangements for this fuel to be used for electricity generation are not in place. We have no reason to believe that these commercial arrangements could not be put in place should they be required.”</p> <p>MEUG agrees with the second proposal to include “an additional validation step which compares assumed thermal fuel consumption with available supply each time we update the HRCs.” An important part of our agreement is the system operator in estimating HRCs by applying their reasonable opinion must make relevant information available for scrutiny by interested parties. The paper acknowledges this in stating:</p>

¹ Document URL <https://www.transpower.co.nz/sites/default/files/bulk-upload/documents/Consultation%20document%20for%20Thermal%20Fuel%20Limitations%20in%20the%20Hydro%20Risk%20Curves.pdf> at <https://www.transpower.co.nz/system-operator/security-supply/hydro-risk-curves>

Question	MEUG response
	<p>“We also propose to make the information used in the validation step available to participants so they can make their own assessment of thermal fuel supply risks.”</p>
<p>2. Do you support the relevant electricity and gas market participants giving information to the system operator for the purposes of validating HRC thermal fuel burn assumptions? If not, why not?</p>	<p>Agree the system operator should ask for such information though we are not confident, for gas market information in particular, that information will be forthcoming. This view has been reinforced with the current opaque information on the status and expected return to full service of the Pohokura offshore pipeline. This current event is a major issue and, in our view, likely materially affecting spot prices. Despite the current criticality to both the gas and electricity markets there has been a paucity of information on the Pohokura offshore pipeline. If such information is not provided in critical market events we are not confident the system operator will be able to source updated gas sector information each month the HRC's are refreshed.</p>
<p>3. Can you identify any practical limitations to supplying this information?</p>	<p>Yes, see discussion above.</p>
<p>4. If you hold some of the information described above, are there any reasons why you could not, or would not, supply the information to the system operator? If so, what are these reasons?</p>	<p>Not applicable to MEUG.</p>
<p>5. Do you agree with the proposed process for producing the HRCs, incorporating the validation steps for thermal fuel availability?</p>	<p>The process is reasonable.</p> <p>However, the devil-will-be-in-the-detail of assumptions disclosed when an adjustment is proposed to the HRC for thermal fuel limitations. Sufficient information must be published to allow interested parties to replicate the results and undertake sensitivity tests using alternative assumptions.</p> <p>For example, referring to step 2, what assumptions are made about supply of other domestic or imported coal sources before using domestic gas?</p> <p>Another example is making it clear what physical constraint the thermal fuel limitation is addressing that curtails market forces meeting supply over contracted quantities. MEUG agrees with the approach in the last sentence of step 3:</p> <p>“We will continue to assume that market forces will enable procurement of fuel quantities over and above the contracted amounts.”</p>

Question	MEUG response
6. Do you agree with the proposed amendment to the wording of the HRC Input Assumptions document and if not, why not?	Agreed.

Yours sincerely



Ralph Matthes
Executive Director