

10 May 2010

Electricity Commission
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by email: submissions@electricitycommission.govt.nz

SUBMISSION ON SETTLEMENT OF ISLANDED EMBEDDED GENERATION

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to respond to the Settlement of Islanded Embedded Generation consultation paper (**the paper**) released by the Commission in April 2010.
- 2 Our submission is in two parts:
 - 2.1 General comments on the paper,
 - 2.2 As a schedule, responses to the Commission's specific questions.

General comments

- *Lack of context*

- 3 Our first observation is that the paper lacks a clear context. It is quite late in the paper (page 12) before we discover that of the 2,000GWh per year generated by such generators (worth around \$130 million per year) islanding occurs 0.15% of the time, and with an associated value of around \$200,000 per year. While we agree that such generators should in principle be paid for their product, this "loss" needs to be seen in the context of the very significant overall revenues, and the various other business risks they face, for example outages, fuel supply and the like. The apparently high transactions costs of some of the options considered also need to be seen in the light of the overall value of embedded generator output, not just the value associated with islanded periods.

4 Other context that would have been useful is:

- 4.1 whether the problem tends to impact all embedded generators to a similar extent or some particularly. If islanding occurs 0.15% of the time overall, but, say, half the time for a small number of such generators then the problem is probably having a much more significant financial impact to some generators than the overall impact would suggest,
- 4.2 the extent to which these generators actually remain in service during such islanding (or do they tend to trip?). Islanding may occur 0.15% of the time, but this does not necessarily mean that generation will always continue at normal levels during islanding events. In the extreme case if the generation always trips in islanding events, then obviously there is zero impact, or at least none that can be resolved via the proposed rule change,
- 4.3 the extent to which such generators either are, or are associated with, the “purchasers” of the energy and/or its sale to end consumers. If the embedded generators are effectively the purchasers of some or all of the energy, then this limits the financial effects, since they are paying nothing as well as being paid nothing. And if they actually sell the energy to end consumers at fixed prices, then the absence of the intermediate transaction is much less important as they are effectively in the same financial position as they would be if the islanding did not occur,
- 4.4 some indication of whether using Albury as a reference in terms of the incidence of islanding is a good sample,
- 4.5 whether there have been examples of the owners or potential owners of generation subject to islanding either disinvesting or not investing due to risk of islanding.

- **Definition of “islanded”**

- 5 On page 5 the footnote contains the comment that islanded “may not necessarily be truly islanded in the electrical sense”. We are not quite sure what this means, but it would seem to imply that there might indeed be some supply into the islanded area from outside it. Since this generation will be being paid for but not purchased in the non-islanded area, it must be reducing the loss and constraint surplus? Is this a further issue that needs to be resolved or part of the same issue? It would appear that under the proposed solution, this energy will actually be paid for twice.

- 6 If “semi-islanding” is actually what is occurring, then the appropriate response might instead be an administrative reassignment of the relevant generation and load to the appropriate balancing area for the islanding periods.
- 7 This also raises a related question: presuming that islanding periods do not align perfectly with trading periods, does this create any issues for the proposed solution?

- **Cost benefit analysis**

- 8 The cost benefit analysis takes the accrual of the previously foregone revenue as the net benefit. We have the following comments on this:
- 8.1 this will only be the net private benefit if the generator in question has no interest in the downstream sale of the electricity to consumers. Any such interest will offset the benefit to the generator,
- 8.2 it cannot be a net public benefit as assuming the generator did suffer the foregone revenue impact in full, another party got the benefit of the “free” energy. Their “loss” needs to be taken into account
- 8.3 the direct cost of making the rule change has been excluded from the analysis, as has the opportunity cost in terms of other EC and industry resource diverted from other workstreams,
- 8.4 what really matters is whether it is judged that islanding is having a material impact on investment decisions in areas prone to islanding, **and** whether the consequences of that are likely to feed through to consumer prices and / or quality of supply. This is asserted in paragraph 3.1.1, but the argument is not further developed.

- **Proposed solution**

- 9 We think that the proposed solution will work, however we are not sure that the option of having the Pricing Manager apply a price should be so readily rejected:
- 9.1 while it is probably true that generally speaking changes to SPD are expensive, it would be useful to have an indication of what the cost of this particular change would be so that this can be set against the \$18,000 per annum cost estimate from the Clearing Manager to implement the proposed solution,

- 9.2 it is not obvious that SPD must be changed to achieve this option. If the rules require the Pricing Manager to make the final price equal to the reference node price where islanding has occurred, and publish final prices accordingly, then we do not see that SPD needs to be changed. The relatively infrequent and isolated nature of islanding should ensure that this is a relatively low cost solution,
- 9.3 this solution would have the benefit that there was an officially defined final price for the period, which would assist participant invoice verification, and their on-charging of customers where there is a spot price component.
- 10 If the proposed solution is indeed implemented we have one specific comment on the proposed rule changes as drafted. In 6.9.3 we believe the second reference to purchaser should be to the clearing manager.

CONCLUDING REMARKS

- 11 Thank you for the opportunity to make this submission. If you have any questions relating to this submission, please contact Bruce Rogers (Pricing Manager) DDI 03 363 9870 or email bruce.rogers@oriongroup.co.nz.

Yours faithfully



Bruce Rogers
Pricing Manager

Schedule: Responses to specific questions

Q No.	Question	Response
1	Do you think a rule change is the best way to address this issue?	<p>We do not believe the paper establishes a compelling case for change, either in terms of this specific issue or in the context of the wider Commission work programme. The paper is light in its analysis of the impacts of a “do nothing” option. The cost benefit analysis is in our view flawed. It is therefore not possible to determine the relative merits of the proposed rule change.</p> <p>More specifically we are not convinced that the option where the Pricing Manager creates prices should be so readily rejected.</p>
2	Do you consider the proposed rule change is the most efficient option? If not then please explain why not.	We presume this question is asking “is this the best way to change the rules to give effect to the proposed solution”. Our only comment on the drafting is that the second reference to “purchaser” in 6.9.3 should be to “clearing manager”?