

4 October 2016

Submissions

Electricity Authority
PO Box 10041
Wellington 6143

by email: submissions@ea.govt.nz

Submission on proposed extended reserve Code amendments

1. Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the Electricity Authority's (the **Authority**) consultation paper (the **paper**) on proposed extended reserve Code amendments.
2. This submission responds to the paper's request for views on proposed Code changes to address 12 operational issues with the extended reserve regime.
3. Our submission is in two parts:
 - 3.1. Our response to general issues; and
 - 3.2. Our response to specific questions.

General Issues

4. Orion is not directly affected by the changes to the extended reserves (ER) or the proposed Code changes, as the application of this section of the Code specifically affects North Island distributors and not South Island distributors. However we have been observing the process and have attended the workshops and would like to make the following comments.
5. While the early consultations on this issue clearly indicated that the proposal related only to the North Island, the Authority's final decision¹ indicated that:

"The new arrangements would initially apply only in the North Island. They will apply (in modified form) to the South Island later."

6. Clearly this provides us with a level of uncertainty and concern that once a process has been established in the North Island it will be applied as a *fait accompli* albeit in a modified form to the South Island without adequate consultation with those impacted in the South Island.
7. We do not consider that it is appropriate to address the 12 operational issues in isolation at this time. As part of the process that the Authority is conducting it should first address the issues that were raised at the three workshops and also by the ENA and review whether the proposed scheme is indeed still appropriate, particularly as it may affect the South Island.

¹ Electricity Authority *Efficient procurement of extended reserves Code amendment Final decision* 11 June 2014

8. Some of the issues raised in the workshop were quite fundamental such as whether there was sufficient capability in NZ to test the relays to the standard required in a reasonable time frame and the cost of such tests; whether there is any benefit in the payment methodology, etc. Overall, the workshops indicated that there are a considerable number of issues that need resolving with the operation of the scheme well before the Authority moves to drafting Code.
9. Final decisions on how the outstanding issues should be dealt with may negate one or more of the twelve issues that the Authority has raised. This process may also add a number of other issues that need to be address by the Code.
10. To the extent that issues raised at the workshops or as a result of earlier consultation coincide with the twelve identified issues. We consider the Authority should have articulated in the consultation paper the problems that were identified at the workshops together with how the proposed Code changes would provide the solutions.
11. In light of the information that the Authority has been provided with at the workshops and in correspondence with the ENA we do not consider that the current scheme can be considered to be efficient. Therefore we do not consider that it is appropriate to consider proposed Code changes or alternatives to the proposed Code changes at this stage.
12. We submit that the Authority needs to first address the issues that have been raised at the workshops and in correspondence with the ENA and review whether the proposed scheme is indeed still appropriate, particularly as it may affect the South Island.
13. Having said that we would like to note that we agree with the technical solution to reducing the risk of cascade failure by changing the current scheme². Our concerns are that a relatively simply four block scheme, that is technically appropriate, has been transformed as a result of the procurement and market design into a complex, information intensive and potentially costly scheme.

Concluding remarks

14. Thank you for the opportunity to make this submission. We do not consider that any part of this submission is confidential. If you have any questions please contact Dennis Jones (Industry Developments Manager), DDI 03 363 9526, email dennis.jones@oriongroup.co.nz.

Yours sincerely



Dennis Jones

Industry Developments Manager

² The current scheme requires that, in each Island, at least 32% of the Island load can be shed in two blocks of at least 16%. The new scheme requires that in the North Island at least 32% of load can be shed in 4 blocks of load being 10%, 10%, 6% and 6% with the last block additionally having a df/dt mechanism. The status quo of a two block scheme remains in the South Island but with an increase in the trip setting of the second AUFLS block to 46Hz.

Answers to specific questions

Submitter	Orion New Zealand Limited
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Question	Comment
<p>Q1. Do you agree that the Authority should address the twelve identified issues with the extended reserve regime? If not, why not?</p>	<p>We do not consider that it is appropriate to address these 12 issues in isolation at this time. As part of the process that the Authority is conducting it should first address the issues that were raised at the three workshops and also by the ENA and review whether the proposed scheme is indeed still appropriate, particularly as it may affect the South Island.</p> <p>Some of the issues raised in the workshop were quite fundamental, such as whether there was sufficient capability in NZ to test the relays to the standard required in a reasonable time frame and the cost of such tests; whether there is any benefit in the payment methodology, etc.</p> <p>Overall, the workshops indicated that there are a considerable number of issues that need resolving with the operation of the scheme well before the Authority moves to drafting Code.</p> <p>Final decisions on how the outstanding issues should be dealt with may address one or more of the twelve issues that the Authority has raised. This process may also add a number of other issues that need to be address by the Code.</p> <p>To the extent that issues raised at the workshops or as a result of earlier consultation coincide with the twelve identified issues. We consider the Authority should have articulated, in the consultation paper, the problems that were identified at the workshops together with how the proposed Code changes would provide the solutions.</p>

Question	Comment
<p>Q2. Do you agree that the Authority’s proposed amendments address the twelve identified issues? If not, why not?</p>	<p>See our comments in response to Q1. However we would note that in respect to Issue 3, the Authority should consult on any data specification and guidelines before it considers Code changes. We have deliberately referred to the Authority consulting on any data specification and guidelines rather than the ERM as proposed in the paper.</p> <p>Whether there is actually a need for the ERM is one of the fundamental issues that needs to be confirmed before any further Code changes.</p> <p>Regardless of who ultimately consults on a specification and guidelines, these must be available as part of any consultation to provide the necessary information to allow parties to make an informed decision on the proposed Code change.</p> <p>We also note that the proposed Code change 8.1A(1) is subjective and contradictory to proposed clause 8.1A(3) i.e Clause 8.1A(1) requires a participant to take all practical steps to ensure that information is complete and accurate, while clause 8.1A(3) provides that the supplied data is deemed to be accurate if it complies with a data specification (note the guidelines are not mentioned).</p>
<p>Q3. Do you consider that there are other issues with the extended reserve regime that the proposed amendments do not address? If so, please provide details of these other issues and any suggestions you have for resolving them.</p>	<p>We consider that the potential application of the ER scheme to the South Island is an issue that has not been addressed, nor is it clear what impact consideration of inclusion of the South Island would have on the overall cost benefit analysis of the scheme. In addition as the Authority has not addressed the issues raised in the workshops and feedback from the ENA it is not clear what other amendments may yet be required.</p>

Question	Comment
<p>Q4. Do you agree the benefits of the proposed amendments outweigh their costs?</p>	<p>We consider that as a result of the information on costs received as feedback at the workshops together with the experience and knowledge that North Island EDBs have on the system and given the comment in the Authority's decision paper that "<i>The new arrangements would initially apply only in the North Island. They will apply (in modified form) to the South Island later</i>" the Authority needs to take a step back and review the original cost benefit analysis.</p>
<p>Q5. Do you agree with the Authority's assessment of alternatives for achieving the objectives of the proposed amendments? If you disagree with the Authority's assessment, please explain your preferred alternative in terms consistent with the Authority's statutory objective under section 15 of the Act.</p>	<p>In light of the information that the Authority has been provided with at the workshops and in correspondence with the ENA we do not consider that the current scheme can be considered to be efficient (Note: we consider that the technical solution is appropriate). Therefore we do not consider that it is appropriate to consider proposed Code changes or alternatives to proposed code changes at this stage.</p> <p>We consider that the Authority needs to first address the issues that have been raised at the workshops and in correspondence with the ENA and review whether the proposed scheme is indeed still appropriate, particularly as it may affect the South Island.</p>
<p>Q6. Do you agree the Authority's proposed amendments comply with section 32(1) of the Act?</p>	<p>See Q5</p>
<p>Q7. Do you have any comments on the drafting of the proposed amendments?</p>	<p>We do not consider that it is appropriate for the Authority to be drafting proposed amendments until:</p> <ul style="list-style-type: none"> • it has reviewed the overall scheme in light of the additional feedback it has had at the workshops and in correspondence with the ENA; and

Question	Comment
	<ul style="list-style-type: none">• consulted with South Island distributors (and others in the South Island) on the possible implementation of the scheme in the South Island.