Electricity Authority
Via email: submissions@ea.govt.nz

11 February 2019

Consultation Paper – Review of regulatory settings for Official Conservation Campaigns

Mercury welcomes the opportunity to comment on the review of regulatory settings for Official Conservation Campaigns (OCCs), no part of our submission is confidential.

We particularly appreciate the effort made to arrange an additional conference call for Auckland and Hamilton based stakeholders and your overall willingness to engage on these important issues. Our response to the consultation questions is contained in the appendix.

Mercury supports the inclusion of contingent storage in security of supply forecasting. Hydro storage (both controlled and contingent) are important for managing risks for reliability and security of supply. Incorporating contingent hydro storage will become more important for future proofing our systems as New Zealand transitions to a low-carbon economy and increases our already high proportion of renewable electricity generation. The electrification of other sectors of the economy such as transport and industrial heat will also add to the importance. To this end it is important that changes to the Security of Supply Forecasting and Information Policy, (SOSFIP) and the Code are worded to accommodate any further contingent storage that may become available in the future.

As we pointed out in our submission on the SOSFIP review, the challenge is incorporating contingent storage in a way that is both meaningful and easy for market participants and other relevant stakeholders to understand. It should avoid causing confusion, increasing compliance costs and undermining consumer willingness to co-operate in the unlikely event an OCC is launched. The System Operator's (SO) proposals in our view strike a pragmatic balance.

We are pleased to see further work on the SO and Authority work programmes for the coming financial year on improving the accuracy of demand forecasts. We acknowledge that the SO is continuing to make incremental improvements in this area. We strongly support greater priority and effort in this area. This would help significantly with overall risk management during periods of constrained electricity supply. This is a point Mercury has made consistently in submissions to the Authority and the SO[1].

We agree the objective for the proposal for changing the start and end triggers for OCCs should be to promote reliability and efficiency. It is important that non-discretionary means be used where possible to trigger the start and end of OCCs. While mechanisms such as floors and buffers may not be the perfect solution it is preferable to agree mechanisms in advance rather than leave the system vulnerable to lobbying when supply security comes under pressure. It is also important to design the provisions to minimise the risk of the SO needing to start an OCC within a fortnight of ending one in order to avoid undermining consumer willingness to conserve electricity.

We agree that it is no longer necessary to provide for both a New Zealand wide OCC and a South Island only campaign. With the completion of the HVDC upgrade and better disclosure of fuel availability, (although there is room for further improvement with respect to the latter), there is now better transfer of energy from the North Island to the South Island and more scope for effective supply management. A South Island only OCC would cause confusion and resentment amongst consumers.

[1] See for example Mercury submission on Making hours-ahead forecasts more accurate, 5/4/17, Electricity Authority pg1.

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One area that remains an unresolved issue, even with the status quo arrangements, is that the proposals do not provide effective incentives on participants to manage hydro storage in the national interest. We would welcome further consideration of options to address this issue in future consultations.

Yours sincerely

James Flexman
Wholesale Markets Manager

Appendix 1 Consultation Questions

Consultation Question	Mercury Response
Q1. Do you agree the 10% HRC, calculated inclusive of contingent storage, should be used to trigger the start of an OCC? If you disagree please provide reasons.	Yes. We agree with the assessment made by the Authority that using the 10% HRC inclusive of contingent storage to trigger an OCC would not materially increase the risk of rolling outages starting, should an OCC occur. Therefore there is no need to amend clause 9.23 of the Code.
Q2. Do you agree a buffer should be added to any HRC floor? Please provide reasons.	Yes for the reasons outlined in the consultation paper para 3.25 (a)-(d). We also agree with the points made in para 3.27 that leaving management to the SO's discretion would provide market participants with less certainty over when contingent storage would be triggered than with a pre-determined buffer. There would also be more incentive for inefficient lobbying of the SO by generators.
Q3. Do you agree a Code amendment putting in place a floor on the 10% HRC is necessary and desirable to avoid the infeasible solution described in paragraphs 3.14 to 3.20? If you disagree please provide reasons.	Yes. It is important that the Code provide for a non-discretionary means for using any contingent storage triggered by an OCC to avoid inefficient lobbying.
Q4. Do you agree with our preferred potential change to the reserve supply determination? If you disagree please provide reasons.	Yes we support the reserve supply determination allowing the contingent storage in Lake Hawea and Lake Tekapo to be used at 4% HRC inclusive of contingent storage provided there is an appropriate buffer. This would retain the current risk differential between when the use of contingent storage in these lakes is permitted, and when an OCC could start.
Q5. Do you agree there are adverse effects on reliability of supply and market efficiency from the current arrangements for ending an OCC?	Yes. We agree with the Authority's analysis in the consultation which suggests the current OCC end trigger may cause an OCC to end too soon forcing a second one soon thereafter which would undermine conservation efforts, confuse participants and impose additional costs on the SO, the Authority and industry participants.
Q6. Do you agree with our proposed approach to addressing these adverse effects?	Yes specifying in the Code that there must be a minimum fortnight period between OCCs with a 10% chance of an OCC recurring within a fortnight strikes the right balance between providing certainty for market participants, maintaining goodwill towards conserving electricity and effective risk management. We note that the Authority proposes that the SO develop, publish and maintain a methodology for assessing the probability of needing another OCC within a fortnight.
Q7. Do you agree there should be two forms of OCC – a South Island-only OCC and a NZ-wide OCC? Please give reasons.	No, we only need a NZ only OCC. As discussed in the consultation there is now better transfer of energy from the North Island to the South Island, a South Island-OCC may cause confusion and resentment amongst consumers. Normally there would be little difference in timing between the start of a NZ-wide and South Island only OCC and a South Island only OCC may be too ridged in its geographic scope.
Q8. Do you agree with the proposal's objectives? If not why not?	Yes the objective for the proposal for changing the start and end triggers for OCCs should be to promote reliability and efficiency. We agree that non-discretionary means should be used where possible to trigger the start and end of OCC's to minimise inefficient lobbying and reducing the possibility of the SO having to

	start an OCC within a fortnight of ending one is important.
Q9. Do you agree the benefits of the proposed amendment outweigh the costs?	Yes.
Q10. Do you agree the proposed amendment is preferable to the status quo and the alternatives? If you disagree, please explain you preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act.	Yes.
Q11. How far in advance of the start of winter 2019 (ie 1 June 2019) would you need the proposed changes implemented to be of use in your operational decision-making for winter-2019?	Market participants are forming their views on winter hedging well in advance of June. Two months at a minimum would be necessary to enable participants to effectively incorporate the changes into operational decision making. Therefore any changes would ideally need to be in place by the end of March 2019.
Q12. Do you agree that the Authority's proposal complies with section 32(1) of the Electricity Industry Act 2010?	Yes.
Q13. Do you agree with the Authority's assessment of the proposal against the Code amendment principles? If not why not?	Yes.
Q14. Do you have any comments on the drafting of the proposed amendment?	Yes.