



Better together.

Submissions  
Electricity Authority  
Level 7, ASB Bank Tower  
2 Hunter Street  
P O Box 10041  
WELLINGTON

By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Trustpower Limited

Head Office  
108 Durham Street  
Tauranga

Postal Address:  
Private Bag 12023  
Tauranga Mail Centre  
Tauranga 3143

F 0800 32 93 02

Offices in  
Auckland  
Wellington  
Christchurch  
Oamaru

Freephone  
0800 87 87 87

[trustpower.co.nz](http://trustpower.co.nz)

## TRUSTPOWER SUBMISSION: REVIEW OF REGULATORY SETTINGS FOR OFFICIAL CONSERVATION CAMPAIGNS

### 1 Background

- 1.1.1 The Electricity Authority (**the Authority**) and Transpower are co-ordinating a package of changes aimed at improving the reliability of the electricity system. Collectively the changes are likely to affect when official conservation campaigns are triggered and therefore how dry-year risk is managed.
- 1.1.2 The Authority is proposing:
- a) changes to the Code in relation to the start and exit triggers for official conservation campaigns (**OCC**);
  - b) to amend the Authority's standing reserve supply determination to ensure there continues to be access to contingent storage.
- 1.1.3 The Authority is also seeking feedback on whether New Zealand-wide and South Island-only OCC's remain appropriate.
- 1.1.4 Transpower's changes to the Security of Supply Forecast and Information Policy (**SOFSIP**) are intended to incorporate contingent hydro storage into the determination of the hydro-risk curves (**HRCs**).

### 2 Trustpower's views

- 2.1.1 Trustpower thanks the Authority and Transpower for:
- a) their approach to progressing the changes as a package of reform; and
  - b) decision to hold a combined workshop on both matters,
- as this has assisted understanding the proposed changes and their interconnections.
- 2.1.2 We are generally supportive of the Authority's proposed changes to the regulatory setting for OCC's and consider that they are necessary to support the inclusion of contingent storage into the HRC's, as proposed by Transpower.
- 2.1.3 However, we consider that a few matters need additional consideration at this time, namely the date for commencement of the proposed changes and interaction of future potential changes to information disclosure requirements in the gas industry.

## 2.2 Commencement of proposed changes

- 2.2.1 The implications of incorporating contingent storage into the HRC part way through a winter needs to be further considered in the context of what signals the changes will provide around the risk to reliability of the system.
- 2.2.2 We consider that incorporating contingent storage part way through the winter into the HRC's:
- will likely impact forward prices on the ASX, as the stated level of risk to the system of a supply shortage (as captured by the HRC's) will change, despite no real change in risk occurring; and
  - could lead to a sudden change in the perceived risk of supply shortages.
- 2.2.3 To avoid these unintended outcomes arising as a result of the timing of implementation of the proposed changes, we recommend aligning commencement with the traditional start of the inflows (i.e. 1 October).

## 2.3 Other related workstream's

- 2.3.1 We understand that the Ministry of Business, Innovation and Employment (**MBIE**) currently has a programme of work underway to make changes to the Gas Act 1992 to allow the Gas Industry Company (**GIC**) to recommend governance arrangements that will improve information disclosure to the wholesale gas market.
- 2.3.2 In parallel, the GIC has commenced a work programme to reduce information asymmetry, including seeking information from the upstream sector and large users as to what information they can provide to ensure that all parties have access to similar information (i.e. a voluntary solution). By the end of the 2019 financial year the GIC intends to be in a position to identify whether a voluntary solution is feasible or if regulation is required. A regulatory solution would not be able to be progressed till at least 2020.
- 2.3.3 Improvements in the transparency of information in the gas industry, particularly with respect to gas production facility outages (which are not always disclosed), will be an important input for Transpower in considering operational limitations on thermal fuel availability which underpin the HRC.
- 2.3.4 The outcomes around information disclosure in the gas industry will have additional implications for Transpower's assessment of risk to security of supply in the electricity market.
- 2.3.5 While it may be challenging to align the work of the GIC with that being undertaken by the Authority and Transpower at this stage, we encourage the Authority and Transpower to consider the implications of unknown gas outages on security of supply.
- 2.3.6 Recent evidence also suggests that thermal plant operate to a lower level of output than is assumed in Transpower's modelling. We do not suggest changing this assumption but this evidence, along with the potential implications of un-notified gas outages, could justify Transpower adopting a more conservative view around thermal plant operation.
- 2.3.7 Our responses to the specific questions posed by the Authority are provided in Appendix 1.

For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,



Craig Schubauer

WHOLESALE

MARKET

MANAGER

## Appendix 1: Responses to the Authority’s questions

	Question	Response
1	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.
2	Do you agree a buffer should be added to any HRC floor? Please provide reasons	Yes.
3	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.
4	Do you agree with our preferred potential change to the reserve supply determination? If you disagree, please provide reasons.	Yes.
5	Do you agree there are adverse effects on reliability of supply and market efficiency from the current arrangements for ending an OCC?	Yes. Industry need to ensure that OCC’s do not send conflicting signals to consumers. Ending a campaign too soon, and therefore needing to restart a new campaign in rapid succession, would most likely confuse consumers, and weaken the signal received by consumers.
6	Do you agree with our proposed approach to addressing these adverse effects?	Yes.
7	Do you agree there should be two forms of OCC – a South Island-only OCC and a New Zealand-wide OCC? Please give reasons with your answer	<p>No. We support the proposal that there should be only one set of New Zealand-wide HRC.</p> <p>As identified in the Authority’s consultation paper, the current New Zealand-wide and South Island-only HRCs are very similar during the parts of the year where an OCC is more likely (i.e. winter). As such, an OCC being triggered through one set of curves would likely very closely coincide with the other set of curves being triggered – likely days apart, weeks at most.</p>

		<p>We agree that a South Island-only OCC:</p> <ul style="list-style-type: none"> <li>• may be too rigid in its geographic scope; and</li> <li>• could cause resentment from South Island consumers; and</li> </ul> <p>We consider it would send mixed signals to the market to have a staggered start to any campaign based on geographic regions.</p>
8	Do you agree with the proposal's objective? If not, why not?	Yes we agree with the proposed changes by the Authority, provided that the changes around the inclusion of contingent storage in the HRC's currently proposed by Transpower are adopted.
9	Do you agree the benefits of the proposed amendment outweigh its costs?	Yes.
10	Do you agree the proposed amendment is preferable to the status quo and the alternatives? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	<p>We have mixed views around whether the proposed amendment with respect to adjusting the triggers to start and finish an OCC is preferable to the status quo and the alternative.</p> <p>The current methodology is clear and simple to explain. In contrast, the proposed methodology will potentially create uncertainty and confusion, with any benefits attributable to a reduction in the likelihood of needing to start another campaign within 2 weeks of the OCC ending likely outweighed by the overall increase in uncertainty at the end of an OCC.</p> <p>We consider there is merit in further considering the alternative proposal put forward previously by Contact Energy – to end an OCC after storage has been above the 8% HRC for a defined period of time. This would ensure that there is transparency around the end triggers, and that there is a low likelihood of requiring a return to a conservation campaign within 2 weeks.</p> <p>We view this methodology as superior to the proposed methodology, and believe that there is much to be gained from having clearly defined triggers in an OCC. By having set triggers, we believe the benefits of not stopping the campaign too soon will be balanced with the certainty that is given to the market. Overall we view that this will improve the reliability of the market by removing any subjective triggers.</p>

11	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?	<p>We believe that the changes should not occur during winter. Our preference would be for any changes to be implemented during October, when inflows are typically arriving, and the risk of a shortage are the lowest.</p> <p>Refer to our views around the commencement date outlined in the body of our submission.</p>
12	Do you agree that the Authority's proposal complies with section 32(1) of the Electricity Industry Act 2010?	Yes.
13	Do you agree with the Authority's assessment of the proposal against the Code amendment principles? Please give reasons if you do not.	Yes.
14	Do you have any comments on the drafting of the proposed amendment?	No.