

# Update on secretariat and Authority actions regarding system operator performance

26 April 2012

## **1 Update on secretariat and Authority actions regarding system operator performance**

- 1.1.1 At the 13 December 2011 meeting the SRC received and considered papers reviewing the system operator's performance for 2010/11 and discussing potential enhancements to the system operator performance assessment process.
- 1.1.2 Following this discussion a letter from the SRC was sent to the Authority Board, providing the SRC's advice on system operator performance. A copy of that letter is attached for reference. The SRC discussed this letter with the Authority Board on 31 January 2012.
- 1.1.3 The letter identified two actions:
- a) the SRC secretariat was asked to continue discussion with the system operator and propose a suitable range of performance measures for the SRC to consider at its next meeting (with these measures to include some specific considerations); and
  - b) a number of issues were identified that the SRC would consider at the SRC's next review of system operator performance.
- 1.1.4 At the same 31 January 2012 meeting that the SRC met with the Authority Board, the Authority Board also considered papers on the system operator's performance for 2010/11 and potential improvements to the system operator performance assessment process, including the establishment of an appropriate set of performance objectives. These papers were similar to those presented to the 13 December 2011 SRC meeting.
- 1.1.5 Having received the advice of the SRC on system operator performance and considered the related papers, the Authority Board has requested that Authority staff undertake a more fundamental review of the system operator's performance objectives. The intention of this review is to ensure that the objectives and functions of the system operator in the Code and in the System Operator Service Provider Agreement (or SOSPA, the contract between the Authority and the system operator) are consistent with the Authority's statutory objective.<sup>1</sup> Once this alignment review has been completed it will then be possible for suitable, and consistent, performance measures to be established with the system operator.
- 1.1.6 Authority staff are currently completing the proposed framework for this alignment review for approval by the Authority Board. The review will commence once this approval has been received and is expected to take several months to complete.
- 1.1.7 It is considered that it would be inefficient for the SRC secretariat to continue to work on establishing system operator performance measures (i.e. the action requested at 1.3(a) above) while this review is in process. Accordingly, no paper on this issue has been included in the agenda for this 10 May 2012 meeting.
- 1.1.8 The SRC is scheduled to commence its next discussions on system operator performance at the 29 August 2012 meeting (for finalisation at the 8 November 2012 meeting). Discussion on some or all of the matters raised for further consideration (at 1.3(b) above, that relates to item 3 of the attached letter) could potentially be included in the agenda for that 29 August 2012 meeting if the SRC still wishes to look into these matters further.

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<sup>1</sup> I.e. Promoting competition in, reliable supply and the efficient operation of the electricity industry for the long term benefit of consumers.

**Appendix A Letter from SRC to Authority Board, 'Performance assessment of the system operator'**

19 January 2012

Dr Brent Layton  
Chairman  
Electricity Authority Board  
PO Box 10041  
Wellington 6143

Dear Brent

## Performance Assessment of the System Operator

As part of its functions, the Security and Reliability Council (SRC) is tasked with providing the Electricity Authority (Authority) with advice on the system operator's performance including against its principal performance obligations (PPOs), security of supply function and any other function of the system operator important to the performance of the electricity system or to reliability of supply. The purpose of this letter is to provide the SRC's feedback to the Authority on the system operator's performance.

### 1. Historical performance assessment

The SRC was presented with a work in progress draft of the Authority's assessment of the system operator's 2010/11 performance report. The SRC considered that it was not appropriate that it assess the system operator's performance at this detailed level. The SRC saw no need to duplicate the Authority's own assessment and saw its role to be of a more strategic and forward-looking nature. On this basis the SRC considered that it would be appropriate to look at the establishment of a broader set of performance measures for the system operator and to identify aspects of the system operator's performance that warranted their further consideration. The SRC is comfortable with the process that the Authority has undertaken in reviewing the system operator's 2010/11 performance.

### 2. Establishing additional system operator performance measures

At its three meetings to-date the SRC has considered a range of information on system operator performance and the measures that might be available to consider whether the desired level of performance is being achieved. The PPOs of the system operator are set out at clause 7.2 of the Code, but there are a number of other areas where its performance can influence the operation of the power system and electricity market. The Code, the System Operator Service Provider Agreement (SOSPA) and the compliance regime all incorporate elements of performance.

The SRC has asked the Secretariat to continue discussions with the system operator and to propose a suitable range of performance measures for the SRC to consider at its next meeting. The SRC has requested that the performance measures:

- include consideration of the system operator's strategic responses to future needs (as the Authority's existing assessment is at more of a transactional level);
- recognise the importance of transparency of operations, governance arrangements to ensure delivery of obligations under the SOSPA and strategic development, although it is recognised that such measures are difficult to produce;

- are developed in a way that allows the set of indicators to evolve over time; and
- are ranked in priority, given that some measures are significantly more important than others, with the PPOs having the highest priority.

### 3. Aspects of performance for further consideration

A number of other issues were considered by the SRC, but as consensus was not reached on these they will be retained for further consideration at the SRC's next review of system operator performance. These include the:

- system operator's use of its discretion to dispatch out-of-merit order generation for system security reasons;
- integrity of the market systems (that have experienced two failures in the past year);
- performance of the Reserve Management Tool (RMT);
- system operator's processes for proactively delivering the most competitive market outcomes on behalf of the industry, particularly in respect of ancillary services; and
- delivery of major industry projects (with a post-project review of the Market Services Project (MSP) considered to be a potential case-study).

We look forward to discussing these matters with you at your Board meeting on 31 January 2012.

Yours sincerely



Kevin Thompson

**Chair**

**Security and Reliability Council**