

Security and Reliability Council ::: Meeting Number 4
Venue ::: Level 7, ASB Bank tower, 2 Hunter Street, Wellington
Time and date ::: 9:30 am ::: 10 May 2012

## Minutes

### Members Present

- ::: Kevin Thompson (Chair)
- ::: Patrick Strange
- ::: Albert Brantley
- ::: David Russell
- ::: Bruce Turner (by phone)
- ::: Erik Westergaard (by phone)
- ::: Vince Hawksworth (by phone)

### Apologies

- ::: Dennis Barnes
- ::: Terrence Currie

### In attendance

Electricity Authority (Authority):

- ::: Ross Hill, Acting Chief Executive
- ::: Fraser Clark, General Manager Operations Development
- ::: Mike Collis, Senior Adviser Common Quality

System Operator:

- ::: Kieran Devine, General Manager System Operations (agenda items 8-10 only)

Strata Energy Consulting (as support for the secretariat):

- ::: Bill Heaps (agenda item 10 only)

The meeting opened at 09:40 am.

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### 1 Welcome and Apologies

1. The Chair welcomed members to the meeting of the Security and Reliability Council (SRC), and noted that apologies had been received from Terrence Currie (not able to attend the meeting due to a cancelled airline flight) and Dennis Barnes.

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### 2 Previous Minutes

2. The minutes of the 13 December 2011 meeting and the 28 March 2012 special meeting were accepted as a true and accurate record.

*(Thompson/Russell)*

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**3 Actions list**

3. Fraser Clark noted that item 1 on the action list (review of the need for summer energy and capacity margins) had been deferred and the other actions and matters arising were covered in individual agenda items.

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**4 Correspondence**

4. A letter from the Chair was sent to the Authority Board providing advice on Transpower's report to the SRC on the 13 December 2011 AUFLS event.

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**5 Disclosure of Interests**

5. Fraser Clark distributed an updated register of members' interests.
6. The Chair advised that, under the Crown Entities Act, a person is not interested in a matter if his or her interest in the matter is so remote or insignificant that it cannot reasonably be regarded as likely to influence the way the person carries out his or her responsibilities. As a general "rule of thumb", the Authority regards a financial interest of under \$20,000 as being insignificant.
7. If in doubt, members should discuss the interest with the Chair in the first instance. It is incumbent on members to keep the Chair advised of any material changes in members' interests.
8. Patrick Strange confirmed he had an interest with respect to the review of system operator performance (agenda item 7).

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**6 Review/feedback on SRC meeting with Authority Board, 31 January 2012**

9. The Chair acknowledged member's very good level of attendance at the SRC's meeting with the Authority Board on 31 January to present the SRC's views on the system operator's performance for 2010/11.
10. Members did not provide any further feedback or raise any outstanding issues in relation to the meeting with the Board or the system operator's performance.

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**System Operator Performance****7 Update on secretariat and Authority actions regarding the system operator's performance**

11. In relation to the Secretariat's action to continue working with the system operator on developing performance measures, Fraser Clark advised that the Authority had recently initiated a review of the system operator service provider contract, to ensure that this was aligned with the Authority's statutory objective. A timeframe for this work would be discussed with the Authority Board in June 2012. Fraser recommended the performance measures be developed after the review of the contract is completed.
  12. A member noted that the SRC's focus in reviewing the system operator's performance was at a more strategic level than the operational view necessarily taken by Authority.
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## Security of Supply

### 8 SRC report to Authority Board on security of supply issues

*Kieran Devine joined the meeting at 9:50 am*

13. Members had a wide ranging discussion on the nature of supply risks affecting the electricity industry. Risks were seen to include not just physical supply risks, but also commercial and reputation risks. The conclusions drawn from the discussion were that:
- regulatory uncertainty (across the wider legislative framework) can be a barrier to long term investment;
  - an interruption to natural gas supply is a potential security of supply risk that may not be well understood by all industry participants; and
  - market signals don't always provide correct incentives for participants to take appropriate action during catastrophic events (a case in point being the Maui pipeline outage in October 2011). The system operator can be left in a position of having to make real time security-based decisions on behalf on the industry, which have great commercial risks, only to be judged after the fact by others.
14. Members agreed more industry dialogue was required to gain a better understanding of the market signals issue, using the Maui outage as a reference. An open forum should be established with generating companies to discuss the issue. It is possible that a regulatory solution may not be the best approach.
15. A member questioned whether an industry-wide risk register was required to document management of critical industry risks such as the Maui pipeline or Waitaki generation. In response other members observed that there is no way to mitigate all major infrastructure risks, that each participant's register may be commercially sensitive, and that any register would require more work than just an aggregation of each party's registers. Additionally, the Chair advised that the development of an industry-wide risk register is not within the terms of reference of the SRC.
16. The SRC members discussed whether the industry was resilient to major events, and whether appropriate communications were in place. Views were expressed that risk management practice within electricity industry participants is generally very mature.
17. Fraser Clark advised the Authority's functions include industry monitoring, including industry-wide measures of reliability and security (in line with the Authority's statutory objective). The Authority is currently working to establish such measures, though they are difficult to develop.
18. Members observed there was some confusion as to whether 'security' in the context of the Authority's statutory objective relates to quality of service (CAIDI, SAIDI, SAIFI etc.) or the management of catastrophic risks. Discussion on this subject was continued under agenda item 10, 'reliability of supply'.

Action	By	Date for action
Secretariat to prepare a draft letter from the SRC to the Authority Board on security of supply issues that incorporates the recommendations of the paper 'SRC advice to Authority Board on security of supply' and the matters discussed at paragraph 13, above, for review and approval by the SRC members.	Secretariat	Completed letter to Authority Board prior to their 29 June 2012 meeting.

Secretariat to work with relevant SRC members to establish a suitable industry discussion forum on events during the Maui pipeline outage and compile a report to the SRC on the outcomes of that forum.	Secretariat, Albert Brantley, Patrick Strange	Update at August meeting.
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The secretariat to provide a 'dashboard' of security of supply and reliability measures for consideration by the SRC.	Secretariat	For August meeting
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**9 AUFLS provision in the South Island**

19. Patrick Strange advised members Transpower has reached agreement with Rio Tinto over the provision of AUFLS at the Tiwai Point GXP and that work is proceeding to have the AUFLS available by January 2013. This is the shortest practical time in which the work can be implemented. In the interim, security arrangements are considered adequate.

Action	By	Date for action
The secretariat to complete action 7 (carried forward from meeting 3) to draft a letter to update the Authority Board on the status of South Island AUFLS. The draft letter is to be circulated to members by the Chair for comment.	Secretariat	Final letter to the Authority Board for consideration at their 29 June 2012 meeting.

**Reliability of Supply**

**10 Risk management arrangements for supply reliability across the electricity supply chain**

*Bill Heaps joined the meeting at 10:15 am*

- 20. Bill Heaps summarised the paper provided for this agenda item and noted that the paper was not intended to provide an in depth analysis of reliability risk management, but to provide context for discussion around reliability and quality of supply across the industry, including an overview of the current arrangements.
- 21. Members noted that, as discussed under the Security agenda item (refer to paragraphs 13-18), there was confusion as to whether 'security' relates to service performance or risk management.
- 22. Members sought clarification of the boundary between the Commerce Act and the Electricity Industry Act jurisdictions in terms of the intended meaning of reliability and requested the secretariat to provide an interpretation of reliability in the context of the Authority's guiding document, "Interpretation of the Authority's Statutory Objective".
- 23. Members questioned the benefits of using an aggregate interpretation of reliability and quality as complaints in the industry relate to the tail of the performance distribution curve, i.e. the worst (as opposed to average) failure rates.

*Bill Heaps and Kieran Devine left the meeting at 11:55 am.*

Action	By	Date for action
The secretariat to prepare a short paper clarifying the definition of reliability in the context of the Authority's statutory objective, the boundaries with other jurisdictions, particularly the Commerce Commission and Consumer Affairs, and the role of the SRC on reliability matters.	Secretariat	For August meeting

### General Business

#### 11 Resourcing the SRC secretariat

24. Members discussed the role of the SRC as being one of providing independent advice to the Authority Board and not being one captured by the Authority's work programme. It was noted that some issues arose over the SRC's consideration of the 13 December AUFLS event and there was a perception of a degree of 'filtering' by the secretariat. It was also noted that the papers prepared for this meeting indicated an improvement in the perception of the role of the secretariat in servicing the SRC.
25. Members offered to accept responsibility for the preparation of some of the meeting papers for future meetings. The papers could be passed back to the secretariat for circulation in the normal way.
26. Members resolved to keep a watching brief on how well this approach resolves any residual concerns in regard to the role of the secretariat.

#### 12 Other Business

27. The Chair noted the focus of the August meeting of the SRC would be on the conclusion of discussions on reliability and the start of the next round of review of the system operator's performance. Performance issues for consideration are to include those identified in the meeting on 13 December 2011 and noted to the Authority Board in the SRC's letter of 19 January 2012.
28. A member suggested the Gas Industry Company be invited to present an update on gas industry contingency planning to the next meeting.
29. The Authority's performance measures in its Statement of Intent include an evaluation by the Chair on the quality of the support the SRC has received from the secretariat. A survey will be circulated to members for them to provide to the Chair so that he can complete his evaluation.

Action	By	Date for action
Invite the Gas Industry Company to present to the next SRC meeting with an update on gas industry contingency planning.	Secretariat	For August meeting
Secretariat to circulate copies of the survey of the quality of the secretariat's support of the SRC to members. Members are to complete the survey and return them to the Chair.	Secretariat, members	Complete by end June 2012

30. The date of the next meeting is 29 August 2012.

*The meeting closed at 12:15 pm.*