

16 September 2013

Submissions
Electricity Authority
PO Box 10041
Wellington

By email to submissions@ea.govt.nz

SUBMISSION ON THE REMOVAL OF THE IN-BAND FREQUENCY-KEEPING CONSTRAINED ON AND OFF COMPENSATION

Introduction

1. This submission is made by Pacific Aluminium on behalf of Rio Tinto Alcan (New Zealand) Limited and New Zealand Aluminium Smelters Limited (NZAS). It is made in response to the Authority's paper on the removal of the in-band frequency-keeping constrained on and off compensation (the paper) of August 2013. Nothing in this submission is confidential.
2. Pacific Aluminium supports the proposals in the paper. Frequency-keeping (FK) costs have been a contentious issue for many years and reforms that reduce these costs are overdue. The proposal is one of incremental change, but has the potential to significantly reduce these costs especially at times when wholesale electricity prices are high.

Level 6
109 Featherston Street
Wellington 6011
New Zealand
PO Box 1665
Wellington 6140
New Zealand
T +64 (0) 4 471.1527
F +64 (0) 4 472.8041

www.pacificaluminium.com.au

Response to Questions

Question No.	General comments in regards to the:	Response
Q1	Are there any interdependencies between the timing of the introduction of MFK in the North and South Islands and the date when the Code amendment proposal should be brought into effect?	Pacific Aluminium is not aware of any interdependencies that need to be managed.
Q2	Do you have any comments on the Objective of this Code change proposal?	Pacific Aluminium agrees with the objective of the proposal. Improving the efficiency with which FK selection is made should lead to a reduction in the cost of this service.
Q3	Do you think there is a reduced incentive for the generators to participate in the frequency keeping market after the proposed amendment?	The proposal should reduce the generators ability to extract economic rent, but this should not be sufficient to reduce their incentives to participate. The reason is that participation should still be profitable, but there will be a reduced ability to extract arguably excessive rents. The changes to the way FK has been procured that have already been made appear to have significantly reduced costs, but we are not aware that these have reduced the incentive to participate.
Q4	Do you have any comments on the assessment presented?	No – the assessment looks sound.
Q5	Are there any additional costs or benefits that need to be considered?	We are not aware of any further costs or benefits.
Q6	Are there any other alternatives the Authority should consider apart from the status quo?	We are not aware of any alternatives that should be considered. The proposal is an incremental change to the way FK is procured and has the potential to produce substantial benefits, especially during high priced periods.

Q7	Do you have any comments on the Authority's assessment of the proposed amendment against the requirements of section 32(1) of the Act?	The assessment is reasonable.
Q8	Do you have any comments on the Authority's assessment of the proposed amendment against the Code amendment principles?	The assessment is reasonable. Critically, the proposal should improve the economic efficiency with which FK providers are selected and that should lead to lower costs to consumers and thus be to their long-term benefit.
Q9	Do you have any comments on the Authority's proposed code amendment?	No comments.

3. The proposal is essentially that presented to the Electricity Commission in 2006 by the industry's Frequency Issues Group and the Major Electricity Users' Group. Implementation is long overdue and Pacific Aluminium supports the Authority in expediting the Code amendments.
4. If the Authority would like to discuss the points made in this submission further, then please contact me.

Ray Deacon
Manager Regulatory and Government Affairs