

Amendments to the policy statement

Consultation Paper

Submissions close: 5:00pm 15 March 2016

2 February 2016

Executive summary

On 27 November 2015, the system operator provided a draft policy statement to the Electricity Authority (Authority) for approval.¹ Before deciding whether to approve the draft policy statement, the Authority must consult on the proposed changes.

The key changes to the existing policy statement that the system operator has proposed are:

- clarifying and simplifying constraint definitions and requiring the system operator to provide some information regarding market constraints earlier
- removing implied obligations for other participants to provide information
- removing the obligation to publish and maintain the Business Performance Policy
- providing for a more efficient process for Tiwai reduction line changes
- clarifying and simplifying the Conflict of Interest policies and processes
- other wording clarifications and removal of some clauses.

This consultation paper relies on supporting material provided by the system operator, particularly the system operator's view of the costs and benefits of the proposed changes to the policy statement.

In addition, the Authority would like feedback from interested parties on the policy statement's provisions for management of extended contingent event risk following an under-frequency event.

The Authority will consider all submissions received, including the system operator's cross submission. Once finalised, the policy statement will take effect when it is adopted by the Authority by giving notice in the Gazette. The Authority expects to be able to do this by May 2016 at the earliest.

¹ The draft policy statement has been proposed by the system operator to comply with clause 8.10A of the Electricity Industry Participation Code 2010 (Code), which requires that the system operator conduct a full review of the policy statement at least once every two years.

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1. Introduction and purpose of this paper

1.1 Introduction

1.1.1 The system operator policy statement plays a key role in the set of Code provisions, contracts and other arrangements that collectively deliver common quality and orderly system operation. It sets out the policies and means by which the system operator will fulfil its functions during the term of that policy statement.²

1.1.2 On 27 November 2015 the system operator provided a draft policy statement to the Authority. Before deciding whether to approve the draft policy statement, the Authority must consult on the proposed changes.³

1.2 The purpose of this paper is to consult

1.2.1 The main purpose of this paper is to seek comments on the changes proposed to the policy statement, from participants and persons that the Authority thinks are representative of the interests of persons likely to be affected by the changes.

1.2.2 The second purpose of this paper is to consult on one other issue related to the policy statement.

1.2.3 The proposed changes to the policy statement are set out in Appendix D.

1.2.4 The other issue the Authority would like comment on is set out in section 4.

1.2.5 The Authority will provide to the system operator a copy of all of submissions it receives, and will publicise them on the Authority's website.

1.3 How to make a submission

1.3.1 The Authority prefers to receive submissions in electronic format (Microsoft Word) in the format shown in Appendix A. Submissions in electronic form should be emailed to submissions@ea.govt.nz with 'Consultation Paper – Amendments to the policy statement' in the subject line.

² The policy statement is a document incorporated into the Code by reference under the Electricity Industry Act 2010 (Act). The process for amending or replacing it is governed by clauses 8.10A to 8.12B of the Code.

³ Clause 8.11 of the Code

- 1.3.2 If you cannot send your submission electronically, post one hard copy of the submission to either of the addresses provided below, or you can fax it to 04 460 8879. You can call 04 460 8860 if you have any questions.

Postal address

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Physical address

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

- 1.3.3 Submissions should be received by 5pm on 15 March 2016. Please note that late submissions may not be considered.
- 1.3.4 The Authority will acknowledge receipt of all submissions electronically. Please contact the Submissions' Administrator if you do not receive electronic acknowledgement of your submission within two business days.
- 1.3.5 Please note the Authority will publish all submissions it receives. If you consider that the Authority should not publish any part of your submission, please indicate which part, set out the reasons why you consider the Authority should not publish it, and provide a version of your submission that the Authority can publish (if it agrees not to publish your full submission).
- 1.3.6 If you indicate there is part of your submission that should not be published, the Authority will discuss it with you before deciding whether to not publish that part of your submission.
- 1.3.7 However, please note that all submissions the Authority receives, including any parts that it may not publish, can be requested under the Official Information Act 1982. This means the Authority would be required to release them unless good reason existed under the Official Information Act to withhold them. The Authority would normally consult with you before releasing any material that you said should not be published.

2. Background

2.1 Introduction

The system operator may amend the policy statement

- 2.1.1 The system operator last reviewed the policy statement in the second half of 2013. It came into effect on 15 May 2014.
- 2.1.2 The system operator must review the policy statement at least once every two years. It may also propose changes to the policy statement between reviews.

The system operator has submitted a draft policy statement after a full review

- 2.1.3 After a full review of the policy statement in 2015, the system operator provided a draft policy statement to the Authority on 27 November 2015.
- 2.1.4 The system operator's review of the policy statement included:
- (a) considering its register of operational issues that may benefit from being addressed in the policy statement
 - (b) considering any policies, clauses or issues that industry participants had identified as needing review
 - (c) specifically considering the policy statement in relation to the Authority's statutory objective.
- 2.1.5 In October 2015, the system operator sought comment from participants on the initial draft policy statement. It received two submissions. The system operator considered the submissions and concluded that no changes to the draft policy statement were required.
- 2.1.6 When submitting a draft policy statement to the Authority, the system operator is also required to provide the following information on the proposed changes ⁴:
- (a) an explanation of the proposed change and a statement of the objectives of the proposed change
 - (b) an evaluation of alternative means of achieving the objectives of the proposed change
 - (c) an evaluation of the costs and benefits of the proposed change

⁴ Clause 8.10A(2)

- (d) a list of the persons consulted and a summary of the submissions received.
- 2.1.7 The system operator provided a table with its draft policy statement that included the information referred to in paragraphs 2.1.6(a) to 2.1.6(c). This is attached as Appendix B.
- 2.1.8 The system operator also provided a summary of submissions (as referred to in paragraph 2.1.6(d)). This is attached as Appendix C.
- 2.1.9 The key changes to the existing policy statement are to:
- (a) clarify and simplify constraint definitions and require the system operator to provide some information earlier about market constraints
 - (b) remove implied obligations for other participants to provide information
 - (c) remove the obligation to publish and maintain the Business Performance Policy
 - (d) provide for a more efficient process for Tiwai reduction line changes
 - (e) clarify and simplify the Conflict of Interest policies and processes
 - (f) clarify other words and remove some clauses.
- 2.1.10 The system operator has also noted that the review of the policy statement identified a number of potential operational changes and further project works. These include the investigation of procedural changes such as the use of market node constraints and investigative projects such as 33 kV asset planning and a review of the extended contingent event classification as part of a review of the security policy.
- 2.1.11 An analysis of the changes proposed to the existing policy statement is set out in section 3 of this paper.

The Authority has identified one other issue to consider

- 2.1.12 The Authority has identified one other issue related to the policy statement that it would like feedback on. This is that management of extended contingent event risk following an under-frequency event may not be efficient.
- 2.1.13 This issue is considered in section 4 of this paper.

2.2 The Authority is consulting on proposed changes to the policy statement

- 2.2.1 The Code requires the Authority to publicise the draft policy statement and to seek submissions.⁵ The Authority publicised the draft on its website on 2 February 2016 and is now inviting submissions from participants affected by the changes proposed.
- 2.2.2 The consultation process for a policy statement is different from the process for making a Code amendment because:
- (a) it is specified in the Code, not the Act
 - (b) at the end of the process, if the Authority approves the changes to the policy statement they are adopted by the Authority incorporating the amendments, or a replacement document, into the Code by reference.⁶
- 2.2.3 In preparing this consultation paper, the Authority has drawn on the material provided by the system operator in support of the draft policy statement including. In particular, the Authority has drawn on the summary of key changes, the costs and benefits of those changes (Appendix B), and the summary of submitters' views expressed to the system operator prior to providing the draft policy statement to the Authority (Appendix C).

⁵ Clauses 8.12(1) and 8.12(2)

⁶ The process is specified in section 32(3) and Schedule 1 of the Act.

3. The Authority has evaluated the proposed changes

3.1 The Authority proposes to replace the policy statement in its entirety

3.1.1 The process of amending a policy statement allows the Authority to choose whether to amend the current policy statement or replace it in its entirety. The decision is based largely on the extent of the changes to be made.

3.1.2 In this case, the Authority’s proposal is to replace the existing policy statement in its entirety with the draft policy statement set out in Appendix D, along with any further amendments made following consultation.

3.1.3 The changes proposed as a result of the 2015 review are:

Reference (clause)	Description
25, 27-29, 30.1A, 30.1B, 30.2, 30.B-30.E, 30.G, 30.H, 30.4, 87.9, 88.A, 88.B, 88.1, 89.1, 90.1	Clarifying and simplifying constraint definitions.
30.1, 30.1AA	Requiring the system operator to publish outage mitigation information four weeks prior to an outage (rather than two weeks) for outages that could be of significant interest to participants. Clarifying and simplifying constraint definitions.
32.2	Adding in a time allowance for the system operator to incorporate asset capability information into the Reserves Management Tool.
89.2	Changes to nominated bids and generation and reserve offers to incorporate dispatchable demand.
90.1	Removing requirement to dispatch the generator who is matching a load change at Tiwai.

Reference (clause)	Description
98.4, 111, 113, 116.1, 124, 125	Removing obligations on other participants to provide information. The system operator will rely on Code provisions that support the provision of this information.
105, 106, 111.1, 111.2, 111.3, 111.4, 112, 112.1, 112.2	Removing some clauses from the policy statement that were repetitions from the Code.
135-155	Clarifying and simplifying overly repetitive and potentially confusing clauses in the conflict of interest policies and processes.
156, 156.1-156.8	Removing the obligation to publish and maintain the business performance policy. The business performance policy sets out the system operator's commitment to professional standards in its interactions with participants (requests, regular communication, consultations and complaints).
159, 164, 169, 170, 172, 173, 178.4	Glossary of Terms updated to align with clause changes within the policy statement.

3.1.4 The draft policy statement submitted by the system operator is attached as Appendix D.

3.2 The objectives of the proposed changes are to improve the policy statement

3.2.1 Drawing from the supporting material provided by the system operator, the objectives of the proposed changes are to:

- (a) improve clarity of the policy statement and remove any potential confusion for participants
- (b) provide greater certainty to participants about the actions the system operator will take
- (c) better reflect actual practice and process in the policy statement
- (d) improve efficiency of some processes in the policy statement
- (e) remove obligations on other participants from the policy statement.

3.3 The Authority’s view is that benefits outweigh costs

- 3.3.1 The Authority has considered the costs and benefits of the individual changes proposed by the system operator, drawing on the material it provided with the draft policy statement (included in Appendix B). The Authority considers that the proposal to replace the existing policy statement with the draft policy statement would:
- (a) clarify the system operator’s existing practices
 - (b) improve the efficiency of some of the system operator’s processes
 - (c) remove unnecessary clauses.
- 3.3.2 The Authority accepts the system operator’s determination that:
- (a) there are no material identifiable costs associated with most of the changes, as they are administrative in nature
 - (b) removing the requirement in clause 90.1 to dispatch the responding generator in a Tiwai Reduction Line Change Process simplifies an operational process and reduces manual intervention points. It also has no material identifiable costs associated with it.
- 3.3.3 Some compliance and administrative costs may arise from implementing the proposal. Again, these are not likely to be material.
- 3.3.4 While the overall magnitude of the costs and benefits is difficult to assess, the Authority’s preliminary view is that the benefits of the proposal would outweigh the minor costs.
- 3.3.5 However, the Authority is cautious that changes that seem small may have implications for participants of which it is unaware.
- 3.3.6 The Authority therefore invites stakeholders to comment on the assessment of the costs and benefits of the proposal.

Q1. Do you agree with the Authority’s overall assessment of the proposal? If not, what alternative assessment would you make and why?

3.4 The Authority invites comment on alternatives

- 3.4.1 In Appendix B, the system operator has set out its views on alternatives to the changes it has proposed to the policy statement.

3.4.2 The Authority acknowledges the system operator's views, but understands that other alternatives may exist that have not been identified, and therefore invites participant comment.

Q2. Is there an alternative to any of the individual changes proposed by the system operator that you consider better meets the objectives of the proposal? If so, please describe the alternative and why you prefer it.

3.4.3 The Authority also invites participant comment on the actual drafting proposed by the system operator to give effect to the changes.

Q3. What comments do you have on the proposed drafting of the changes, as set out in Appendix D? If you disagree with what is proposed, please provide alternative drafting.

4. The Authority has identified one other issue

4.1 Management of extended contingent event risk after an under-frequency event may not be efficient

- 4.1.1 The security policy (within the policy statement) sets out a variety of different situations and the different circumstances under which the system operator will shed demand. Two of these situations specify that:
- (a) if there is a shortage of instantaneous reserve for an extended contingent event (ECE) and participant responses to warning and grid emergency notices do not mitigate the emergency, then “subject to clause 33.2, demand shedding will occur”⁷
 - (b) after an event, if there is “...a shortage of instantaneous reserve for a binding second contingent event... demand shedding will only occur where the system operator reasonably believes a second defined event is likely and AUFLS is insufficient to ensure the frequency PPO can be met” (emphasis added).⁸
- 4.1.2 The Authority is concerned that the latter provision may not promote an efficient level of reliability. In particular, the Authority is concerned that it does not provide for the system operator to take steps to manage ECE risk following an under-frequency event (UFE), in circumstances where an ECE is possible but not likely. Depending on system conditions (particularly the extent of AUFLS availability), such an ECE could cause cascade failure.
- 4.1.3 Demand shedding is a serious step, but it can help achieve an efficient level of reliability where it reduces the total expected costs of outages to consumers.⁹ Knowing when this is the case requires the system operator to balance the *certainty* of shedding a *known* quantity of load for an *uncertain* period of time against the *possibility* of losing a *known* load (such as an entire island) for the *uncertain* period of time it would take to restore that load. Whether or not an UFE has just occurred does not—in principle— affect this decision.¹⁰

⁷ From clause 74(B) of the policy statement.

⁸ From clause 74(C) of the policy statement.

⁹ This is acknowledged in the policy statement’s definition of ECE as being “events for which the impact, probability, cost and benefits are not considered to justify the controls required to totally avoid demand shedding...” (at clause 12.3).

¹⁰ An UFE can be *relevant*, to the extent it could influence one of the six variables (such as likelihood of an ECE occurring). But the occurrence of an UFE does not, in and of itself, constitute a reason to manage ECE risk any differently.

- 4.1.4 As such, the policy statement appears unnecessarily restrictive as to when the system operator may shed demand. The Authority would prefer the policy statement to promote an efficient level of reliability by aiming to minimise the total expected costs of outages to consumers.
- 4.1.5 In practice, there are operational limitations on what the system operator's system coordinators can achieve in terms of adequately managing the ECE risk and minimising consumers' costs following an UFE. The key limitations are the coordinators' time and the availability and accuracy of information. Despite the reality of such limitations, the Authority considers that the policy statement should still be designed to enable an efficient level of reliability. That way, as operational limitations vary by event and over time, the goal of managing the ECE risk remains efficient.
- 4.1.6 The Authority has asked the system operator to comment on this issue. The system operator has stated that work is underway to review the operational processes used following an UFE. The system operator expects to release findings from this review early in 2016.

Q4. Do you agree that, in principle, the decision to shed demand to avoid cascade failure being caused by an ECE should be unaffected by whether or not an UFE has recently occurred?

Appendix A Format for submissions

Questions for submitters

	Question	Response
Q1	Do you agree with the Authority's overall assessment of the proposal? If not, what alternative assessment would you make and why?	
Q2	Is there an alternative to any of the individual changes proposed by the system operator that you consider better meets the objectives of the proposal? If so, please describe the alternative and why you prefer it.	
Q3	What comments do you have on the proposed drafting of the changes, as set out in Appendix D? If you disagree with what is proposed, please provide alternative drafting.	Comments (if any) are contained in the following table
Q4	Do you agree that, in principle, the decision to shed demand to avoid cascade failure being caused by an ECE should be unaffected by whether or not an UFE has recently occurred?	

Drafting comments

Clause	Comment	Proposed alternative drafting

Appendix B System operator assessment of the proposed changes

Appendix C System operator summary of submissions

Appendix D Proposed changes to the policy statement