

2016 amendments to the procurement plan

Decisions and reasons

29 November 2016

Contents

1	The Authority has approved a draft procurement plan	1
2	Background to the Authority's decision	1
3	The proposed changes are approved because they promote the Authority's statutory objective	3
Appendix A	The revised procurement plan (with changes marked-up)	4

1 The Authority has approved a replacement procurement plan

- 1.1 The Electricity Authority (Authority) has approved a replacement procurement plan, proposed by the system operator. The procurement plan will be incorporated by reference into the Code to replace the current procurement plan, with effect from 1 December 2016.

2 Background to the Authority's decision

The procurement plan

- 2.1 The system operator's procurement plan is part of the arrangements that deliver common quality and orderly system operation.
- 2.2 The procurement plan sets out, for each ancillary service, the principles the system operator will apply, and the process the system operator will follow, in assessing the quantity required to be purchased.
- 2.3 The procurement plan also sets out the proposed approach to procuring the ancillary services it needs and the key terms the system operator intends to include in the contracts it negotiates with ancillary service providers.
- 2.4 Clause 8.43 of the Electricity Industry Participation Code 2010 (Code) sets out what the procurement plan must contain.
- 2.5 Under clause 8.40, the system operator must make reasonable endeavours to implement and comply with the procurement plan. However, the system operator may depart from the processes and arrangements set out in the procurement plan if the system operator reasonably considers it necessary to do so to comply with its principal performance obligations under the Code.
- 2.6 The procurement plan is incorporated by reference into the Code, and it is available on the Authority's website.¹

The system operator submitted a draft procurement plan

- 2.7 The system operator advised the Authority on 12 August 2016 that it had completed a review of the procurement plan. The scope of that review included assessing the procurement plan to ensure it best promotes the Authority's statutory objective.
- 2.8 The system operator proposed a number of amendments to the procurement plan, many of which have been prompted by changes in the power system and wholesale electricity market over the last two years including:
- (a) further development in the frequency keeping market arrangements, including the introduction of inter-island Frequency Keeping Control (FKC) on the HVDC transmission link
 - (b) the development of a National Market for Instantaneous Reserves (NMIR)
 - (c) changes in the generation fleet, particularly recent thermal decommissioning.
- 2.9 The system operator has advised that it consulted on proposed changes to the procurement plan and received one submission (from Meridian Energy). The system

¹ <http://www.ea.govt.nz/code-and-compliance/the-code/documents-incorporated-into-the-code-by-reference/>

operator prepared a written response to this submission and, as a result, made some amendments to its draft procurement plan.

- 2.10 The key amendments to the procurement plan can be summarised as:
- (a) The default timeframe for ancillary service tenders will change from 12 to 24 months, but tenders can be called more often if the situation requires it.
 - (b) New language will recognise that the HVDC link now allows frequency keeping and instantaneous reserve to be procured in one island to meet the requirements of the other island.
 - (c) Clarifying the wording to reflect that the system operator may procure zero MW of frequency keeping if none is required.
 - (d) A number of drafting changes (including relocating some text) will improve the clarity and structure of the document.
- 2.11 The proposed changes, relative to the current procurement plan, are highlighted in the marked-up version attached as Appendix A.

The Authority consulted on the draft procurement plan

- 2.12 The Authority consulted on the draft procurement plan, following the process set out in clause 8.44 of the Code.²
- 2.13 The Authority's consultation paper sought feedback on:
- (a) the system operator's proposed changes to the procurement plan and the drafting of those changes
 - (b) the Authority's overall assessment of the draft procurement plan
 - (c) alternatives to any of the individual amendments proposed by the system operator that would better meet the objectives of the proposal.
- 2.14 The Authority did not receive any submissions.

The Authority considers that the Code requirements have been met

- 2.15 Clause 8.43 of the Code sets out the required contents of the procurement plan. The system operator has adopted a framework for the procurement plan structure that is based on the wording of clause 8.43. The procurement plan fulfils the Code requirements on content.
- 2.16 Clause 8.42A of the Code sets out the requirements for a review of the procurement plan. Clause 8.44 sets out the requirements for consultation on a draft procurement plan. The Authority considers that these Code requirements have been met.

The Authority can approve or decline the proposed procurement plan

- 2.17 Under clause 8.44(7) of the Code, the Authority may approve a draft procurement plan (subject to the system operator making any changes that the Authority considers appropriate). The Authority did not request the system operator to make any changes.

² The Authority's consultation paper was published on 6 September 2016, and is available from the Authority's website - <http://www.ea.govt.nz/development/work-programme/operational-efficiencies/so-policy-statement-procurement-plans/consultations/#c16170>. The consultation paper includes a copy of the draft procurement plan, an explanation by the system operator of the rationale for its proposed changes, and a submission summary from the system operator's own consultation on an earlier draft of the procurement plan.

- 2.18 The Code does not explicitly set out any matters that the Authority must consider in deciding whether to approve the revised draft procurement plan. The Authority is therefore guided by its statutory objective, which is “to promote competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers”.³
- 2.19 If the Authority approves the revised draft procurement plan, then under clause 8.44B of the Code, the Authority must:
- (a) incorporate the new procurement plan by reference into the Code
 - (b) publicise the new procurement plan and the date on which it takes effect.

3 The proposed changes are approved because they promote the Authority’s statutory objective

- 3.1 The Authority has approved the changes to the procurement plan because it considers that the changes promote the Authority’s statutory objective. The key reasons for this are that the replacement procurement plan:
- (a) reflects important changes in the power system and wholesale electricity market over the last two years, in particular:
 - (i) the introduction of inter-island Frequency Keeping Control (FKC)
 - (ii) the development of a National Market for Instantaneous Reserve (NMIR)
 - (iii) key changes in the generation fleet and transmission system
 - (b) enables future development under the Reserves and Frequency Management (RFM) programme and upcoming Code amendments regarding gate closure
 - (c) reduces ancillary service costs by enabling more competitive and efficient ancillary service procurement, particularly for frequency keeping and instantaneous reserves
 - (d) on balance, reduces system operator administrative costs
 - (e) improves reliability though enhanced ancillary service procurement during emergencies, particularly by reducing the burden on system co-ordinators when managing urgent situations
 - (f) is a better reflection of actual practice and processes
 - (g) is clearer and easier to understand, thereby reducing uncertainty and risk.

³ Section 15 of the Electricity Industry Act 2010.

Appendix A The revised procurement plan (with changes marked-up)