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TRUSTPOWER SUBMISSION: IR EVENT CHARGE AND COST ALLOCATION

- 1.1.1 Trustpower thanks the Electricity Authority and the Wholesale Advisory Group for the opportunity to provide a submission on the WAG discussion paper titled "Instantaneous Reserve Event Charge and Cost Allocation"¹.
- 1.1.2 This is a complicated topic, and one which overlaps to some degree with the Authority's ongoing Transmission Pricing Review and Review of IR Markets. Consequently, we have not yet formed a view on some of the issues raised in the WAG discussion paper.
- 1.1.3 Our response to the questions included are detailed at Appendix A. For any questions relating to the material in this submission, please contact me on 021 751 971.

Regards,

SHANE ADAMS
ENERGY TRADER

WAG IR Event Charge and Cost Allocation_TrustpowerSubmission_Nov2016_v1.0.docx

¹ Refer: <http://www.ea.govt.nz/dmsdocument/21354>

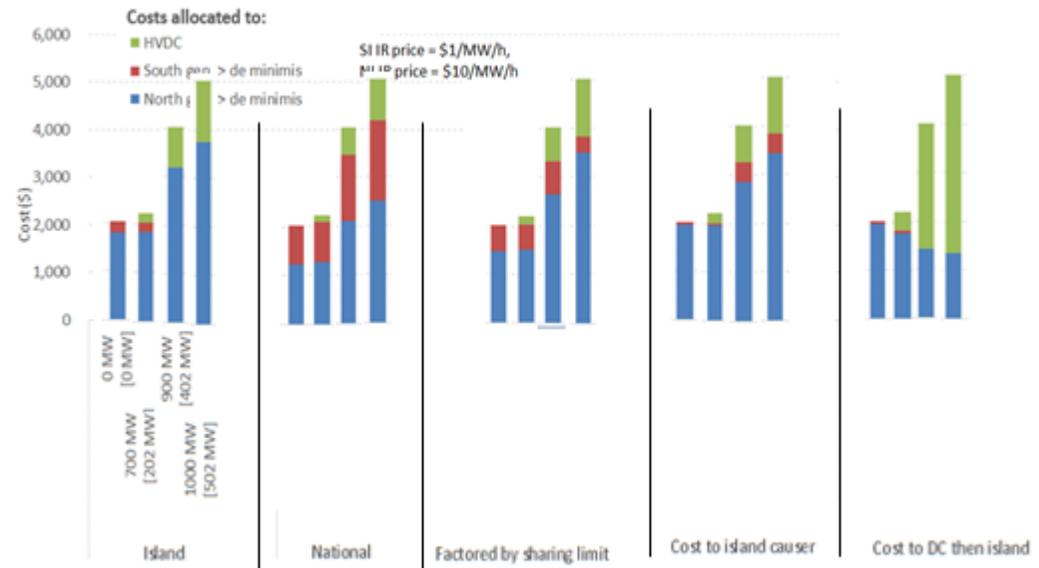
Appendix A: Specific feedback on items in the Discussion Paper

Feedback item	Feedback
1. Do you agree with our identification of the problems with current arrangements?	1.1 Yes.
2. Do you agree with these basic principles for allocating IR costs?	2.1 Yes.
3. Do you agree that continuing with island-based cost allocation after the introduction of the NMIR is unlikely to create perverse incentives on parties to inefficiently withhold energy or IR capacity?	3.1 Yes.
4. What are your views on the merits of moving to a runway methodology (or its sub-options)?	4.1 We agree with the WAG provisional view (p28), that the current pro-rata method is preferred as least risk given the modest and uncertain relative benefit of a runway approach.
5. Do you agree that a de minimis should continue and, if so, at what level?	5.1 Yes, and we consider that there is no compelling reason (in terms of likely net benefits and costs) to change the level of the de minimus from 60 MW.
6. Are there other cost allocation options that you think should be considered?	6.1 No
7. Which option do you think sends price signals to underlying causers of the need for, and location of, IR to be procured in a manner which best meets the cost allocation principles of section 5?	<p>7.1 Probably Option 5 ('Cost-to-HVDC-then-to-AC-island-causers'), because it most closely reflects the technical capabilities and limitations of the HVDC. However, we have some significant reservations, as follows.</p> <p>7.2 We would be concerned about the practical implementation of Option 5, because of the extreme "step" nature of the cost allocation once the HVDC flow exceeds 700 MW north. As shown on p48 of the Discussion Paper, Option 5 brings a sudden and significant cost shift onto the HVDC between</p>

	<p>700 and 900 MW. We do not consider it to be efficient practice to have such step changes in the allocation method, because this will introduce volatility (hence risk, hence cost) to the co-optimised energy + reserves market as participants seek to avoid the step up in charges (or to load those charges onto others).</p> <p>7.3 Hence we recommend the WAG favours allocation options that show a smoother continuum of cost allocations as HVDC flows vary.</p>
<p>8. Do you think the choice of general cost allocation approach (i.e. pro-rata versus runway) has a bearing on which option for cost allocation under the NMIR would be most appropriate?</p>	<p>8.1 Yes, and refer answer to Q4.</p>
<p>9. To what extent do you think the choice of best option is affected by the effectiveness of how costs allocated to the HVDC are passed-on to 'underlying causers' of the level of energy transfer across the HVDC?</p>	<p>9.1 No firm view at this stage.</p>
<p>10. Do you believe that some IR cost allocation options could materially impact on participants' incentives to offer energy and IR to a degree that could have material outcomes on these markets?</p>	<p>10.1 Yes. Some IR cost allocation options (especially Option 5) would produce step changes in the charge allocation due to the non-linear nature of the HVDC capabilities. Refer 7.2 above. Any such step changes could be expected to have a material effect on market offer behaviour and should therefore be avoided.</p>
<p>11. If yes, which options are likely to give rise to such outcomes, and could you provide worked examples demonstrating such effects?</p>	<p>11.1 Options 2,3 and 4 would appear to have smoother allocation proportions across all HVDC flows, and hence would be preferable in this sense compared to Options 1 or 5. But this result depends on a range of factors, e.g., whether pro-rata or runway allocation used, and whether NI thermals remain in service. Refer Figs 21-23 on pp.48/49 of Discussion Paper.</p> <p>11.2 We do not have any specific examples of material market outcomes to illustrate these points, but simply recommend that the WAG considers the unpredictability of the market effects of step changes in cost quanta/proportions as HVDC flows vary.</p>

11.3 The chart below (derived from the Discussion Paper Fig 21) illustrates the more extreme step changes in allocation that are likely under Options 1 or 5 (left and rightmost sections, respectively)).

Cost allocation with price separation



12. Do you agree that HVDC-related IR costs should continue to be allocated to the HVDC owner and passed-on to market participants via the TPM, and do you have any observations about the interim allocation of IR costs under the NMIR?

12.1 This is a complicated issue that overlaps with the TPM. No firm view at this stage.

13. Do you think cost-allocation for commissioning plant should: a) continue as is; b) change to be quantity-and-price-runway-based without application of a de minimis; or c) change to be

13.1 No firm view at this stage.

<p>quantity-runway-based without application of a de minimis?</p>	
<p>14. Do you think a change to allocating costs to commissioning plant on a runway basis should only occur if general cost allocation were to move to a runway basis?</p>	<p>14.1 No firm view at this stage.</p>
<p>15. What cost-allocation approach do you think should apply for plant with under-frequency and voltage-fault-ride-through dispensations?</p>	<p>15.1 No firm view at this stage.</p>
<p>16. What measures do you think should be implemented to address small generation plant that are currently excluded from the need to comply with frequency-related AOPOs?</p>	<p>16.1 No firm view at this stage.</p>
<p>17. Do you think the event charge should be retained, and if so, on what basis?</p>	<p>17.1 No firm view at this stage.</p>