

Submission on Part 12 Omnibus Rule Changes

To: John Rampton CC: Tim Street, Electricity Authority

Dear John,

Proposed rule change would inadvertently undermine fundamental element of market design

Introduction

I would like to tender a late submission on behalf of City Financial to the “Consultation Paper – Code Review Programme”. I’m sorry for the late submission but I have only just come to realise the full importance of the proposed changes described as “2016-09 Changing how Transpower makes grid information available”. The changes as proposed do not constitute a small change to clarify and simplify language and processes but would, inadvertently, undermine a fundamental element of the New Zealand market design.

Part 12 provides certainty as to how the grid is made available to the market

The purpose of subpart 6 (Interconnection asset services) of Part 12, as stated in clause 12.105, includes:

- creating incentives on Transpower, through enforceable service measures, to provide interconnection assets at the capacity ratings required by transmission customers and other grid users
- ensuring that Transpower provides information on the capacity of interconnection assets, and their reliability and availability
- specifying the circumstances in which Transpower may permanently or temporarily remove interconnection assets from service or reconfigure the grid.

The provisions of subpart 6 of Part 12, in combination with other aspects of the Code, provide certainty for market participants in terms of the capacity of the grid that is made available to the market and protects all participants from unilateral changes by Transpower which would alter flows of wealth between participants. These provisions provide participants with the confidence to invest in physical and financial positions and thereby constitute a fundamental element of the New Zealand wholesale electricity market.

The key provisions

Key provisions in achieving this certainty for market participants include 12.110, 12.111 and 12.118.

Clause 12.110(1) incorporates into the Code, in accordance with section 32 of the Act, the interconnection asset capacity and grid configuration which has been given effect by the Authority.

Clause 12.111(1) requires Transpower to make this interconnection asset capacity and grid configuration “available for use by the system operator for the conveyance of electricity ... at least at the service levels specified in the interconnection asset capacity and grid configuration”

Clause 12.118(1)(i) provides for Transpower to propose amendments to the interconnection asset capacity and grid configuration. The Authority may consult with any person it considers is likely to

be materially affected by the proposed amendments to the grid, and determine whether to incorporate into the Code by reference the updated interconnection asset capacity and grid configuration. Transpower must then comply with the updated interconnection asset capacity and grid configuration (clause 12.118(3)).

Proposed rule change would relieve Transpower of requirement to comply with capacity measures

My concern is that the proposed new clause 12.107(1A) would undermine the effect and intent of clauses 12.111 and 12.118(3). The new proposed clause 12.107(1A) will:

“... require Transpower to publish monthly updates on the grid configuration and to indicate any changes as at the end of the previous month.”¹

Under this new clause Transpower could never be in breach of the 12.118(3) as long as any unilateral changes it makes are published in its monthly update. This effectively reduces 12.118(3) to mandating Transpower to publish monthly updates rather than its far more important current purpose as a foundation for the market. The proposed clause 12.107(1A) will allow Transpower to arbitrarily reduce the service levels in the asset capacity and grid configuration.

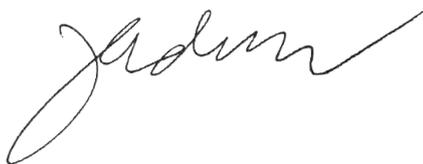
Transpower, as grid owner, is regulated under the Commerce Commission for revenue requirement and investment approval, and under the Electricity Authority for how it prices its services and how it makes those services available in the wholesale market. As noted above, the current requirement for Transpower to meet asset capacity and grid configuration service levels and not alter those service levels without approval from the Authority provides confidence for participants to invest in assets relying on those services. It seems very peculiar for the Authority, when it is considering moving to an Area of Benefit charge, to effectively remove the current obligations on Transpower to provide the service levels which deliver the benefits being priced.

Objective of reducing administration costs can be achieved without relieving fundamental obligations on Transpower

City Financial is not opposed to making the requirements under current clauses 12.110 to 12.118 more dynamic and clearer, but this must be done without reducing the integrity of the intent of these clauses.

The new clause 12.107(1A) could potentially work if it included a requirement that Transpower may not reduce service levels below the previous asset capability and grid configuration unless to recognise a commissioned project approved under a Grid Investment Test, or the change has been approved by the Authority after consultation with the market.

Sincerely,



Phillip Anderson

Portfolio Manager, Asia-Pacific Energy, Cumulus

¹ Page 51 – Consultation Paper – Code Review Programme 2016

City Financial