

09 May 2017

Submissions  
Electricity Authority  
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By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

**Re: Normal Frequency Management – Strategic Review Information Paper**

Thank you for the opportunity to provide comment on the above.

In general, Contact's view is that the method of cost allocation needs to be consulted on and determined before a decision can be made on a shift from the current MFK service to a governor response service for managing normal frequency.

If all generation is meeting their dispatch then demand is the causer of frequency moving off the nominal 50Hz and should continue to be allocated costs accordingly. If the Authority is looking to shift this allocation (or part of) to generation that is unable to provide governor response due to plant or technology type, then this requires further engagement with participants. It is suggested that engagement by an industry workshop or similar would be the most effective means of doing this.

Please see Contact's feedback to the Authority's specific questions in Appendix A.

If you would like to discuss any of the points above please contact me.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Gerard Demler".

Gerard Demler  
**Transmission Manager, Market Services**

## Appendix A

### **(a) Do you have any comments on how governor availability costs, wear and tear costs, capacity carrying costs compare between MFK and governor response?**

In principle, Contact agrees with the Authority's conclusion on cost difference in section 4. If the same generation at **present** that offers into the MFK market, was moved to a governor response market then there would little or no difference in any of the costs above. There would be a marked increase in costs if non-traditional FK plant (large CCGT plant or geothermal plant) were to make available governor response as identified by the Authority in section 4.

### **(b) Do you have any comments on the extent to which MFK can be substituted by governor response?**

We believe it can but it is not clear whether the governor response service is at an island or national level. Our view is that should be implemented at a **national level** in order to make this a competitive process. We see greater value in moving the existing island based MFK to **national MFK** as this would further reduce procurement costs and avoids start-up costs that comes with a new service. As mentioned in 4.31, participants have made significant investments in equipment to participate in the MFK market without being informed at the time of procurement that this market would diminish over time.

Our view is that there would be little or no benefit to new technologies moving to a governor response service. The MFK market would not provide a barrier to new technology participation in the future with the proposed changes to the dispatch tool (EDF replacement project) to allow easier entry for new market participants. The participation of new technologies will further reduce procurement costs.

### **(c) Do you think that there are likely to be net benefits in progressing to a procured governor response service through tendering, given the technical challenges identified in this paper?**

As per our response above, a decision around cost allocation and whether the service is offered by island or nationally would need to be made before any benefits can be determined.

**(d) Which option or options in section 5 do you agree with and which do you not, and why?**

Please see our response in (c).

**(e) Are there any other features or options you would like to suggest?**

No comment

**(f) Do you have any comments on the indicative analysis of governor response costs in appendix E**

Somewhat agree with the hydro analysis but hydro loading is predominantly driven by fuel availability, reserve and MFK revenue is secondary. We agree with the analysis on geothermal losses, there is also the secondary market replacement cost (cost of generation to replace the renewable loss) that would need to be accounted for.

**(g) Are there any other issues you wish to bring to the Authority's attention?**

An increase in the use of governor response to manage the normal frequency range would need to be complimented by a change in dispatch to compensate for units being off dispatch. The Pre Solve Dispatch (PSD) tool may fix this to some extent although the speed of response may be an issue.

As mentioned above, demand or load is the causer of frequency being off nominal. Is there any work planned to review fluctuating/noisy loads, or a sudden change in load, and their effect of frequency quality?