

7 November 2017

Submissions
Electricity Authority
PO Box 10041
Wellington
By email: submissions@ea.govt.nz

Dear Electricity Authority

Re: Wind Offer Arrangements

Thank you for the opportunity to provide comment on the *Wind Offer Arrangements consultation paper (consultation paper)*, a paper focused on improving the offer arrangements for wind generators.

Q1. Do you agree the issues identified by the Authority warrant changes to the offer arrangements for wind generation?

Yes. However, we believe the following issues are also worthy of consideration:

1. While there is a requirement on wind farm generators to submit a forecast of generation, as it stands parties can be as accurate or as inaccurate as they like, without penalty. As at any time wind can represent up to 10% of generation, this can make it very difficult for others, particularly operators of thermal plant when making unit commitment decisions. A requirement that estimates be within a set tolerance of what actually happens would help with forecast accuracy and ultimately better outcomes. We think it would be worth the Electricity Authority (**Authority**) undertaking a random audit of forecast estimates against what has actually occurred in the market to better understand this problem.
2. We think there would be merit in the Authority monitoring the level of costs created as a result of inaccurate forecasts and charging this to the causer of the externality, in this instance wind farms. There are currently around \$14 million a year in constrained on and off payments. However it is unclear how much of this is due to intermittent generation ramping up and down. While it is not possible to prevent wind farms ramping up and down, it is possible to improve the accuracy of forecasts, which would assist parties with unit commitment decisions. An alternative to this would be to allow minimum amounts of dispatch within the stack, e.g. 50 MW, 100 MW, etc.

It is worth noting that when non-wind generators are constrained on, they are obliged to meet dispatch within 1 MW and, in the event they fail to meet that obligation, they are not paid and are breached by the Authority. The approach the Authority is proposing is inconsistent with this. While the nature of wind is such that

it cannot always provide firm capacity, it may be that firm capacity should be rewarded at a greater rate, reflecting the market's ability to rely on it.

With a number of key thermal generation facilities facing ongoing scrutiny over their viability, we believe there needs to be greater consideration of the important insurance role thermal plant will play in ensuring New Zealand can transition securely and affordably to a lower carbon electricity sector. It is important to ensure market settings support an efficient transition to lower carbon generation sources and the efficient retention of sufficient thermal plant to support that transition. In this regard, we suggest that market rules should address the physical limitations of all plant, regardless of fuel type and not favour one over the other. Thermal plant continues to meet New Zealand's electricity supply needs when wind and hydro resources are insufficient to meet demand intra-day and on a seasonal basis. Over time, this role will reduce and market settings need to recognise this. A small example is the risk to peaking thermal generation being dispatched for an uneconomic amount of generation (low volume, high heat rate) due to intermittent generation being higher than forecast. We would like to discuss these specific examples with the Authority.

Q2. Do you agree with the objectives of the proposed amendment? If not, why not?

Contact broadly agrees with the objectives of the paper. However, we are concerned that the Authority is primarily focused on real-time/spot market outcomes. This negates that most decisions are made based on forecasts. Inaccurate forecasts lead to inefficient decision making and additional costs.

Q3. Do you agree that an unsignalled generation withdrawal limit of 30 MW allows sufficient wind farm operational flexibility and does not cause unintended consequences for wind farm owners?

We think the Authority should take a more holistic view and ask what the unintended consequences are for the market as a whole rather than just wind farm owners.

A better approach may be a percentage of capacity, to reflect the size and scale of various wind farms as opposed to a blanket 30 MW. For example, for a small wind farm with a name plate capacity of 45 MW, we do not think they should not be able to withdraw 66% of its capacity without providing an adequate explanation.

Q4. Do you agree the benefits of the proposed amendment outweigh its costs?

No comment.

Q5. Do you agree the proposed amendment is preferable to the other option? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.

No comment.

Q6. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

No comment.

Q7. Do you have any comments on the drafting of the proposed amendment?

No comment.

We would be happy to discuss with you any of the points raised in this submission.

Yours sincerely



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