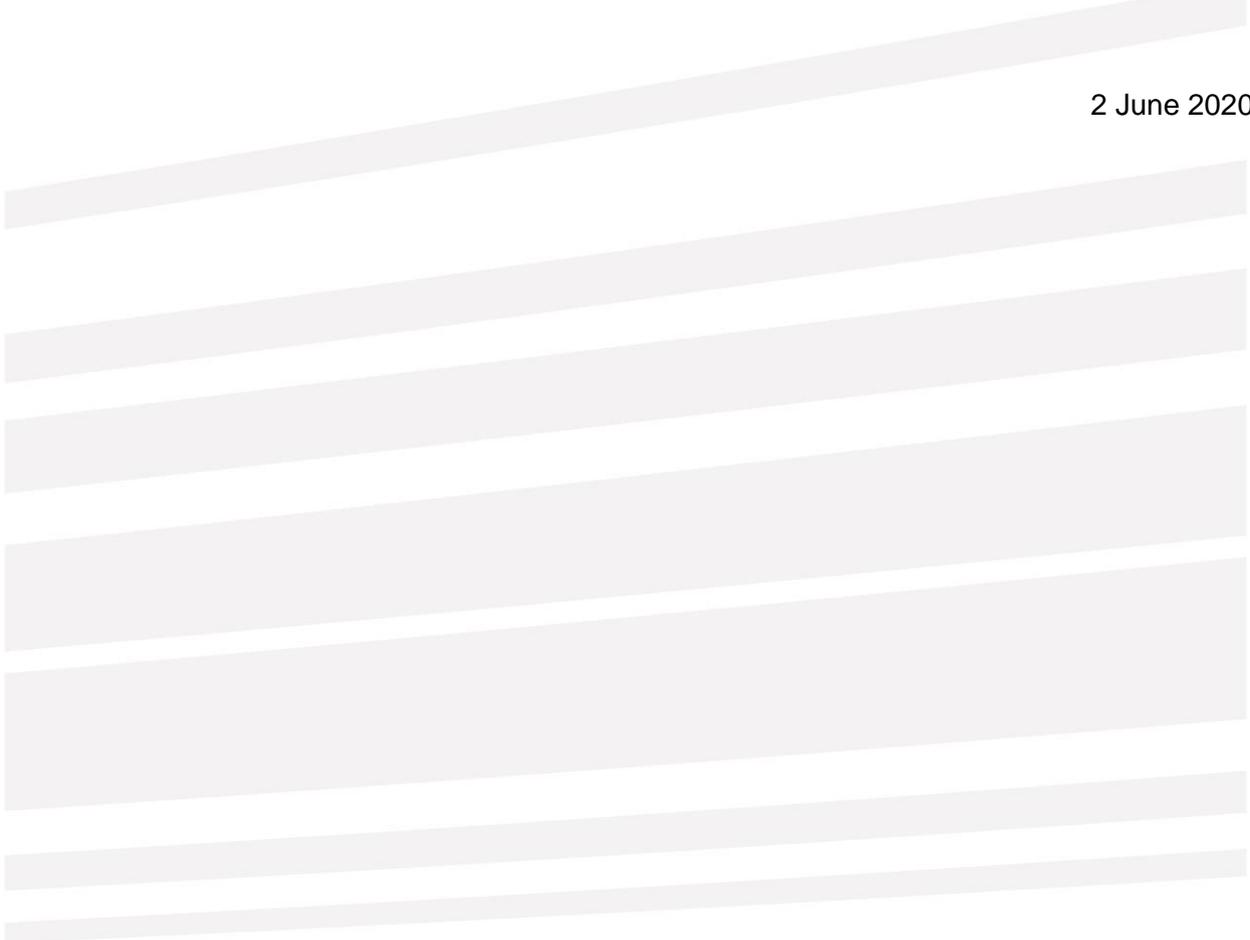


Removal of South Island-only official conservation campaigns

Decision

2 June 2020



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1 Decision

- 1.1 The Electricity Authority (Authority) has decided **not** to remove the provision for South Island-only official conservation campaigns (OCCs). This is following a survey of industry participants in 2019, as part of the *Review of regulatory settings for official conservation campaigns (OCCs) and the security of supply forecasting and information policy (SOSFIP)* projects. We will not amend Part 9 of the Electricity Industry Participation Code 2010 (Code).
- 1.2 The Authority considered removing the provisions for South Island-only OCCs by using section 39(3)(b) of the Electricity Industry Act 2010 (the Act). This section of the Act allows the Authority to amend the Code if we are satisfied on reasonable grounds that there is widespread support for the amendment among the people likely to be affected by it. We have listened to stakeholder feedback. While the majority of stakeholders that responded did support the removal of South Island-only OCCs, we were not satisfied that the respondents were adequately representative of the parties who were affected by this change, and therefore could not be satisfied that there is widespread support.
- 1.3 We appreciate the time participants took to give feedback. We may consider looking at this question again in future, through the standard Code review process, as priorities allow.
- 1.4 It has also been helpful for the Authority to test the widespread support mechanism under section 39(3)(b) of the Act. We will look to use this mechanism again in appropriate circumstances.

2 Background

What is an official conservation campaign?

- 2.1 In conjunction with the system operator, we regularly monitor and assess security of supply to ensure participants have the information and incentives needed for the electricity system to operate efficiently and help ensure the lights stay on.

- 2.2 OCCs are one of the key tools that enable the system operator to manage security of supply emergencies. If an OCC is called, the system operator will ask New Zealanders to voluntarily reduce their electricity usage. An OCC can be triggered for the South Island or the whole country.
- 2.3 The system operator uses a suite of metrics¹ to measure security of supply risk and assess when an OCC is triggered. These metrics are calculated for the South Island and nationally.

We canvassed views on the South Island-only official conservation campaign

- 2.4 During 2018/19 the Authority reviewed the regulatory arrangements for OCCs with the objective to improve the robustness of the OCC mechanisms and better represent the actual hydroelectricity situation. We published a decision paper in June 2019² and associated changes went live on 1 August 2019.
- 2.5 Within the review, we asked stakeholders ‘Do you agree there should be two forms of OCC – a South Island-only OCC and a New Zealand-wide OCC?’. We did not propose a Code amendment at that stage.
- 2.6 We considered the feedback received and in principle favoured removing the provision for South Island-only OCCs.

Why do we in principle favour removing South Island-only OCCs?

1) There is improved transfer of energy from the North to the South Island

- 2.7 Changes in the physical power system since 2011 have improved the ability to transfer energy from the North Island to the South Island. This means North Island savings would now have a more substantial effect on slowing the rate of decline of South Island hydro storage than in 2011, so the physical rationale for South Island-only OCCs is reduced.

2) Consumers may see a South Island-only OCC as confusing and unfair

- 2.8 Negative consumer perception of a South Island-only OCC could undermine its perceived legitimacy, weaken its effectiveness, damage long-term confidence in the electricity industry, and affect the durability of the OCC arrangements.

We proposed removing South Island-only official conservation campaigns

- 2.9 During September to October 2019 we ran a survey asking stakeholders whether they supported the removal of the Code provisions for South Island-only OCCs.³
- 2.10 We proposed removing the provision for South Island-only OCCs – this would require changes to the definitions in Part 1, and clauses 9.22 to 9.25 of the Code.

¹ Including electricity risk curves, risk meters and contingent storage release boundaries (CSRB). Contingent storage is hydro storage not ordinarily available for generating electricity but which becomes available when hydro lake levels are low. The CSRB is the trigger point at which holders of contingent storage can access their contingent storage.

² Refer: <https://www.ea.govt.nz/development/work-programme/risk-management/review-of-regulatory-settings-for-official-conservation-campaigns-occs/development/review-of-official-conservation-campaigns-decisions-published/>

³ Refer: <https://www.ea.govt.nz/dmsdocument/25572-removal-of-south-island-official-conservation-campaigns>

- 2.11 We hoped to make this change to the OCC regime in a quick and pragmatic way, if stakeholders supported the proposal. We acknowledged that it was not likely to be a significant change in terms of its overall net benefit to New Zealanders, and that it therefore would not otherwise be prioritised for a bespoke Code review consultation process. We proposed to use section 39(3)(b) of the Act which allows the Authority to amend the Code if we are satisfied there is widespread support for an amendment among the people likely to be affected by it.

3 The Authority considered issues raised in submissions in making its decision

- 3.1 The Authority received written submissions from the following six participants:

- (a) Contact Energy Ltd
- (b) Genesis Energy Ltd
- (c) LineTrust South Canterbury
- (d) Meridian Energy Ltd
- (e) Nova Energy Ltd
- (f) Transpower New Zealand Ltd.

Submitters' views

- 3.2 Submitters' views are summarised in more detail in Appendix A.
- 3.3 Four submitters were in favour of removing South Island-only OCCs – Contact, Transpower, Nova and LineTrust South Canterbury.
- 3.4 Meridian was in favour of removing South Island-only OCCs, but not the potential consequential changes we had suggested would be required to the SOSFIP and Reserve Supply Determination (RSD). Specifically, Meridian were concerned that the system operator would stop publishing the South Island contingent storage release boundary (CSRB), which is the trigger for Meridian to access their contingent storage in Lake Pūkaki. Meridian considers that CSRBs, as the triggers for contingent storage access, are not linked to the triggers for OCCs so should not be deleted. Meridian were also concerned the system operator would be making changes without consulting properly.
- 3.5 Genesis were not in favour of removing South Island-only OCCs. It thought the survey lacked evidence on problem definition and analysis of options, and considered it was useful to retain the flexibility a South Island-only OCC provides. Genesis was also concerned about the cost implications.
- 3.6 It is also relevant to revisit the submissions received in the first consultation. Of the parties that did not respond to the most recent survey:
- (a) there was support for removing the provision for South Island-only OCCs from Mercury, Pioneer and Trustpower, who all endorsed the arguments we provided
 - (b) Flick wanted to see more analysis in support of a recommendation from the Authority, but were initially in favour of removing South Island-only OCCs
 - (c) The Major Electricity Users' Group noted the arguments we provided and thought our time would be better spent analysing questions of higher value.

Our assessment of submitters' views

- 3.7 In the 2019 survey, four out of six respondents were in favour of the proposed change. Noting that this is the first time we have sought to use this process, we were not satisfied in this case that the respondents were adequately representative of the parties who were affected by this change. For example there was a lack of evidence of support from consumer groups for a proposal where consumer perceptions were particularly important. Therefore we could not be satisfied there is widespread support for the removal of South Island-only OCCs among the people likely to be affected by it (section 39(3)(b) of the Act).
- 3.8 Since we have decided not to remove South Island-only OCCs there will be no need to change Part 9 of the Code. Therefore, there will also be no consequential changes to the SOSFIP or RSD (if we had made the changes, we expected the system operator to prepare and consult on a replacement SOSFIP pursuant to clause 7.5(3) of the Code).

Appendix A Summary of submissions

Summary of submitters' views in response to survey *Removal of provision for South Island-only official conservation campaigns, September – October 2019*

- A.1 A copy of the consultation paper and submissions can be found here:
<https://www.ea.govt.nz/development/work-programme/risk-management/review-of-regulatory-settings-for-official-conservation-campaigns-occs/consultations/?show=18231>
- A.2 Below we have summarised submitters' answers to the question asked in the survey: *Do you support the removal of the Code provisions for South Island-only official conservation campaigns?*

Respondent	Response (<i>complete response reproduced here unless indicated</i>)
Contact	Contact supports the Authority's initiative to remove the South Island-only OCC. We agree that the power systems ability to transfer power from the North Island to the South Island has substantially improved since the Code was amended to manage the low storage situations in 2001, 2003, and 2008, and that the two islands are now coupled. We also agree that this initiative would remove any unfairness or confusion perceived by South Island consumers as to why they are separately targeted to manage what is effectively a low hydro storage issue driven by national energy consumption. We also support the ability to amend the Code under urgency and/or that Transpower make appropriate decisions where south transfer is restricted under planned or unplanned outage conditions that coincide with poor South Island storage.
Genesis Energy Ltd	Genesis does not support the proposed change. <i>See more detail in their submission.</i>
LineTrust South Canterbury	LineTrust South Canterbury unanimously endorses the EA proposal to remove the South Island-only OCC. We believe that the three reasons provided are more than sufficient for the EA to take this action and amend the Code as outlined.
Meridian Energy	Agree with removal of South Island-only OCCs Do not agree with potential consequential changes to SOSFIP and Reserve Supply Determination. <i>See more detail in their submission.</i>
Nova Energy	Nova supports the removal of the Code provisions for South Island-only Official Conservation Campaigns.
Transpower	On balance, yes. We agree that: <ul style="list-style-type: none"> there has been improved transfer of energy from the North to the South Island; stemming from Pole 3, more generation in the lower NI, and lower NI AC transmission reinforcement since OCCs were introduced in 2011;

Respondent	Response (<i>complete response reproduced here unless indicated</i>)
	<ul style="list-style-type: none"> • there is potential for consumers to see a South Island-only OCC as confusing and unfair risking the effectiveness of NZ OCC if subsequently required; and • if needed, the Code provides for emergency change, should a South Island OCC become necessary.

Summary of submitters' views in response to consultation on *Review of regulatory settings for official conservation campaigns (OCCs) and the security of supply forecasting and information policy (SOSFIP), December 2018 – February 2019*

- A.3 A copy of the consultation paper and submissions can be found here:
<https://www.ea.govt.nz/development/work-programme/risk-management/review-of-regulatory-settings-for-official-conservation-campaigns-occs/consultations/?show=17907>
- A.4 There was support for removing the provision for South Island-only OCCs from Mercury, Meridian, Pioneer and Trustpower, who all endorsed the arguments we provided.
- A.5 Flick and Genesis both wanted to see more analysis in support of a recommendation from us, with Flick initially in favour of moving to NZ wide OCCs only and Genesis not seeing a need to change the status quo. MEUG noted the arguments we provided, and thought our time would be better spent analysing questions of higher value.
- A.6 Nova questioned whether South Island-only and NZ wide OCCs were still valid, given the timing between them could be very similar, and proposed a regional based provision whereby OCCs could be triggered for specific areas where force majeure events presented a risk to security of supply.
- A.7 Contact preferred to keep the status quo of two sets of OCCs to give the system operator flexibility on how to manage security of supply events because they thought there are still issues with transferring energy from North to South under certain grid conditions.