

30 July 2010

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Dear Sir/Madam

Consultation Paper – Normal Frequency: Generator Asset Owner Performance Obligations

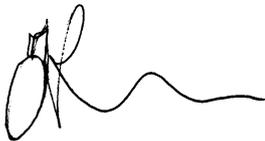
Thank you for providing the opportunity to make a submission on proposed changes to the asset owner performance obligations (AOPO) related to meeting normal frequency requirements. The New Zealand Wind Energy Association (NZWEA) is interested in seeing improvements to frequency keeping arrangements that ensure that adequate frequency keeping services are procured at an optimal cost and that these costs are appropriately allocated within the market.

As discussed in our submission on the complementary consultation paper on frequency keeping cost allocations, NZWEA believes that the Commission (and in due course the Electricity Authority) should focus on the implementation of a more sophisticated frequency keeping market with competitive pricing, more flexible procurement, the ability to respond to actions taken in the market and appropriate cost allocation. Such a market will deliver actual benefits for both market participants (increased options for managing costs) and consumers (lower total cost of delivered energy).

Our specific responses to the questions posed in the consultation paper are attached. However we recommend that this submission on this paper and the cost allocation paper be read together in order to best understand our position on wider frequency keeping procurement issues. NZWEA would be happy to discuss either submission with the Commission (or, in the future, the Authority). Please feel free to contact me if you would like to discuss any aspect of this submission further.

NZWEA also notes that while we have sought and received comments from our members on this submission, the views that we have expressed may not necessarily represent the views of each individual member.

Yours sincerely,



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Question No.	Question	NZWEA Response
1	With respect to normal frequency management, are there features of other grid codes you think the Commission should consider?	<p>The Executive Summary of the paper discusses that in Australia “<i>there are greater opportunities/penalties...associated with supporting frequency under normal conditions</i>” and that the requirements to support frequency are “<i>reinforced with a relatively sophisticated market...</i>” These then provide generators with “<i>an incentive to make additional capability available</i>” and other generators and loads “<i>an incentive to change behaviours to lessen any adverse impacts</i>”. The paper then goes on to note that the Commission is not proposing to establish a sophisticated market like Australia’s at this time, but that it is hoping to achieve the same goals through applying generic standards and cost allocation principles. It is difficult to see how this approach would be able to emulate the perceived success of the Australian arrangements, as cost allocations and the limits to our existing procurement arrangements will not provide any incentive to provide additional capability, or any benefits from changing behaviour. NZWEA suggests that if Australia is to be used as a reference that this should be for its full, sophisticated market arrangements and not just selected components.</p> <p>The consultation paper has included extracts from the grid codes from some other power systems, such as the NEM, EIR Grid, PJM, etc. In some cases these codes identify that there are separate requirements for wind farms, but only the requirements of the conventional generators have been presented in the paper. This makes it impossible to determine what the implications of these alternative requirements might be, compared to the suggested ‘generic’ approach. Given that the paper has been prepared as a result of the Wind Generation Investigation Project (WGIP) perhaps it might have been appropriate for the paper to consider these “alternative” arrangements for accommodating wind generation in more detail?</p>
2	Do you agree with the proposal to clarify rule 2.1 so that generators must ensure their generating units operate under unrestricted governor control?	The use of the term “unrestricted” may need appropriate qualifications to suit the nature of the particular generating unit. Some small amount of dampening may be required to prevent excessive wear and tear on the generator and/or its control equipment.

Question No.	Question	NZWEA Response
3	Do you agree with the proposals for speed governor requirements?	<p>Dispensations must be made available for technologies that are not able to provide a free governor response. A relevant cost allocation might also then be applicable (provided that this is applied in conjunction with an appropriately sophisticated frequency keeping procurement market).</p> <p>NZWEA also understands that the contribution of governors to frequency response can be influenced by other controller settings in addition to the droop setting (such as the 'gain' setting that influences the speed of response). A focus only on droop in the AOPO's may then mean that opportunities to improve frequency response are missed. Broader or more flexible requirements may need to be specified to capture these opportunities.</p>
4	Do you agree with the proposal that initial and all subsequent changes to the speed governor settings be agreed by the System Operator?	<p>Given the increasing range of functionality on some modern generator control systems, it might be appropriate to limit the requirement to those "settings" that might have an impact on governor, and therefore system, performance.</p> <p>Perhaps it might also be appropriate to include some reference to the timeliness of the response from the System Operator (subject to their receiving the appropriate information from the Generator)? This is perhaps covered elsewhere in the Rules?</p>
5	Do you agree with the Commission's analysis regarding the "catch-all" rules?	No comment.
6	Do you have any comments on the proposed rules?	<p>Appendix 2 of the paper identifies that the proposed change achieves the Commission's principal objectives only through its influence on investment decisions. Section 7.3 identifies the main benefit as a reduction in the amount of frequency keeping procured. This would seem to be a very important benefit, consistent with the Commission's objective to put downward pressure on delivered electricity costs. Perhaps if the rules are adopted they should be reviewed to see if the expected cost reduction has actually been achieved? Failure to achieve this outcome might suggest that there are actually other issues that need attention.</p>

Question No.	Question	NZWEA Response
		As discussed in our submission on the cost allocation consultation paper, if it is perceived that the current rules are not being interpreted in the intended manner then it seems sensible to clarify the rules to ensure that the desired outcomes are achieved (subject to those rules actually being appropriate to the capabilities of the generators – there may be good, practical reasons why some generators are constraining their frequency response).
7	Do you think there are other reasonably practicable options the Commission should consider?	As discussed in 1, above, it appears unlikely that all of the intended outcomes can be achieved without establishing a suitably sophisticated frequency keeping market. As discussed in our submission on the cost allocation paper, NZWEA expects that such a market would help to achieve the objective of driving down the cost of frequency keeping procurement, and so total delivered electricity prices. In not discussing the details of alternative arrangements in other markets where wind generators fall under different rules it has not been possible to determine whether these types of rules would have materially distorted the playing field for generation investors in New Zealand.
8	Do you have any comments on the Commission's assessment of the options?	See 6 and 7, above.