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Carl Hansen
Chief Executive
Electricity Authority
P O Box 10041
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Dear Carl,

At our meeting of 20 January on December prices we undertook to:

- set out the timeline discussed; and
- identify issues that have come to light with the Security of Supply Forecasting and Information and Emergency Management Policies (SoSFIP and EMP respectively) that may need to be taken into the pending review of the policies.

The timeline is that set out in our email of 23 January:

1 Nov 10	System Operator responsible for Security of Supply.
9 Nov 10	Grid Owner received advice from Contact of Maui outage, at that stage to commence on 28 Jan 11, and last for 30 days. Advice passed to SO on same day.
7 Dec 10	SO issued Current Outlook indicating the "risk of electricity shortages in the next two months is assessed to be low".
10 Dec 10	Energy News reports: " <u>Price surge out of kilter with supply situation – MEUG</u> The surge in wholesale prices this week doesn't reflect the supply situation, the Major Electricity Users' Group says." The EA is also quoted: "The Electricity Authority yesterday said it will look into the high prices seen since the end of November as part of its mandate to monitor market performance. At this stage it is not initiating a formal investigation".
13 Dec 10	SO receive confidential letter from Contact (cc EA) setting out intended maintenance/operating strategy for Otahuhu.

13 Dec 10	SO/GO received briefing from Meridian (also provided to the EA), on storage, snowpack and inflow outlook.
14 Dec 10	SO issued Current Outlook indicating the “risk of electricity shortages in the next two months is assessed to be low”.
15 Dec 10	NZAS issue media release “Electricity market pricing conditions force production cuts at Tiwai”. MEUG issue supporting media release.
15-20 Dec 10	Bilateral discussions start with industry gathering information about risks to security of supply in the medium term.
16 Dec 10	TP & SO forward email to EA re draft CAN to market over possible change to the Risk Meter.
17 Dec 10	CAN issued to market advising of likely change to Risk Meter.
17 Dec 10	Energy News reports of interview with Kieran Devine: “I stress very loud and very clear that the risk is extremely low at the present time,” Devine says. “We are going to do no more than watch. It is at least another two, maybe three months before we would get really concerned.”
18-21 Dec 10	Heavy rain in hydro catchments over weekend.
21 Dec 10	SO issued CAN to advise that it had decided <u>NOT</u> to adjust the Risk Meter
21 Dec 10	Industry teleconference to discuss Maui gas outage.

The issues that have come to the fore from our discussions about the implementation of the SoSFIP and the EMP would all seem to stem from the replication of material in both policies. The review of the two policies needs to consider the inter-relationship and dependency of the EMP and of the SOSFIP.

Our initial thinking suggests that the SOSFIP should set out or describe:

- the information that the SO will seek to gather, recognising the voluntary provision of information;
- the processes the SO will use to assess the available information and the means of compensation for missing information;
- any models employed in the assessment process, the known limitations of employed models, and how limitations will be accommodated;
- the range of possible conclusions that the system operator may reach, including those that will form an input to the EMP; and
- the means through which the SO will publish its conclusions (graphical, report, diagrammatic).

The revised policies clearly define that the EMP becomes operative “during an extended emergency such as an extended dry sequence or an extended period of capacity inadequacy” as set out in clause 7.3(3)(a) of the Code. The SOSFIP prevails at all time.

Given the inter-related nature of the policies we intend to review both concurrently and expect to publish draft policies for stakeholder consultation in May.

We consider a possible outcome of, the review, one policy document, spanning 'normal' operation of monitor and watch, through to emergency action(s).

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. Devine', with a long horizontal line underneath it.

Kieran Devine
General Manager - System Operations