

Industrial co-generation dispatch arrangements

Decisions and reasons

15 January 2015

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1. The reasons for this paper

1.1 It can be difficult for industrial co-generators to comply with existing offer and dispatch rules

- 1.1.1 The Electricity Industry Participation Code 2010 (Code) requires all generators to submit offers into the wholesale electricity spot market for the quantity of electricity they wish to generate. Offers must be an accurate assessment of the generator's ability to generate, and the generator must revise them as necessary to maintain this accuracy.
- 1.1.2 The system operator uses offers to prepare schedules forecasting electricity generation, consumption, and prices, and to dispatch generation in real time. The pricing manager uses offers to prepare the final prices on which the wholesale electricity market is settled.
- 1.1.3 The Code requires all generators except wind generators (labelled 'intermittent generators' in the Code) to comply with dispatch instructions issued by the system operator. Because wind generation output is hard to predict, intermittent generators are not generally required to comply with dispatch instructions. The exception is that they must comply with dispatch instructions if required for security purposes.
- 1.1.4 There are four co-generators that offer into the wholesale electricity spot market, with a combined generation capacity of over 200MW.¹ It can be difficult for co-generators to comply with dispatch instructions due to the variability of their underlying industrial processes.
- 1.1.5 Carter Holt Harvey Pulp & Paper Limited (CHH) has provided an example of this problem. CHH sometimes experiences boiler trips at its Kinleith co-generating plant. In CHH's words, '*very expeditious actions are needed to avoid steam system instability, consequent multiple boiler and likely turbine trips, and eventual plant collapse*'. CHH has advised that:
 - (a) it experiences multiple boiler trips approximately twice a year
 - (b) the cost of a multiple boiler trip is approximately \$400,000
 - (c) the existing requirement to comply with offer and dispatch rules increases the rate of multiple boiler trips by approximately 10% because the requirement to comply diverts the shift manager's attention from managing the plant.

¹ <http://www.ea.govt.nz/dmsdocument/10940>

1.2 The Authority has reviewed offer and dispatch rules applying to co-generators

- 1.2.1 The Electricity Authority (Authority) is an independent Crown entity charged with promoting competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers.
- 1.2.2 In August 2014 the Authority consulted on a proposal to amend the Code to remove the requirement for some co-generators to comply with dispatch instructions (except for security purposes). The Authority developed the proposal in collaboration with the system operator.
- 1.2.3 The August 2014 consultation paper set out that the proposed Code amendment would support the Authority's statutory objective because it:
- (a) would be relatively simple to implement
 - (b) would have an expected net economic benefit of approximately \$0.8 million present value (PV)²
 - (c) would promote competition and the efficient operation of the electricity industry for the long-term benefit of consumers primarily by:
 - (i) reducing unnecessary costs incurred by co-generators in the process of complying with dispatch provisions of the Code
 - (ii) reducing unnecessary costs incurred by co-generators during investigations into alleged breaches of the dispatch provisions of the Code
 - (iii) reducing barriers to participation by co-generators in the wholesale market
 - (iv) improving the accuracy of dispatch and final pricing schedules
 - (d) was not expected to have an adverse effect on the reliability of the electricity industry.
- 1.2.4 The system operator agreed that the proposed amendment would not have an adverse effect on reliability. It advised that, providing co-generators remained subject to other Code provisions governing offers and dispatch, the proposed Code amendment would not impair the system operator's ability to meet its principal performance obligations.³

² 20 years discounting period at 8% real discount rate

³ Page 6 of Appendix C of the consultation paper on industrial co-generation dispatch arrangements, found at <http://www.ea.govt.nz/dmsdocument/18368>

- 1.2.5 The Authority has considered the submissions, and has decided to proceed with the proposed Code amendment with only minor changes.
- 1.2.6 This paper sets out:
- (a) the decisions reached by the Authority
 - (b) the process followed by the Authority
 - (c) the Authority's reasons for its decisions
 - (d) the changes made to the version of the amendment that was originally consulted on
 - (e) the timing of the Code amendment.

2. The Authority's decisions

2.1 The Authority has decided to amend the Code

- 2.1.1 The Authority has decided to amend Parts 1 and 13 of the Code to remove the requirement for approved co-generators to comply with dispatch instructions (except for security purposes).
- 2.1.2 The finalised Code amendment (appendix A) will come into force on 27 May 2015.
- 2.1.3 The Code amendment provides for a co-generator to apply to the Authority to be classified as either a type A or type B co-generator. Existing co-generators that choose not to apply will be deemed to be type A co-generators.
- 2.1.4 Type A co-generators will continue to operate under the current offer, dispatch, and pricing provisions. There will be no change for type A co-generators in respect of their Code obligations.
- 2.1.5 Type B co-generators will be treated in the same way as intermittent generators for dispatch and pricing purposes. In particular:
 - (i) the Code will not require type B co-generators to comply with dispatch instructions, except in a grid emergency or in a situation in which a system constraint affects them
 - (ii) type B co-generator offers will be:
 - (a) removed from the real time dispatch schedule, and replaced by administrative offers based on the actual metered output
 - (b) removed from final pricing and other ex-post pricing schedules, and replaced by a negative load equal to their actual metered output
 - (iii) type B co-generators will be required to supply metering information, that measures their generation output, to the pricing manager and the grid owner (in accordance with clause 13.137 of the Code).
- 2.1.6 Type B co-generators will still be required to place and revise offers as they have in the past. They will still be subject to gate closure rules. Unlike intermittent generators, they will not be required to place persistence offers in the two hours leading up to real time.

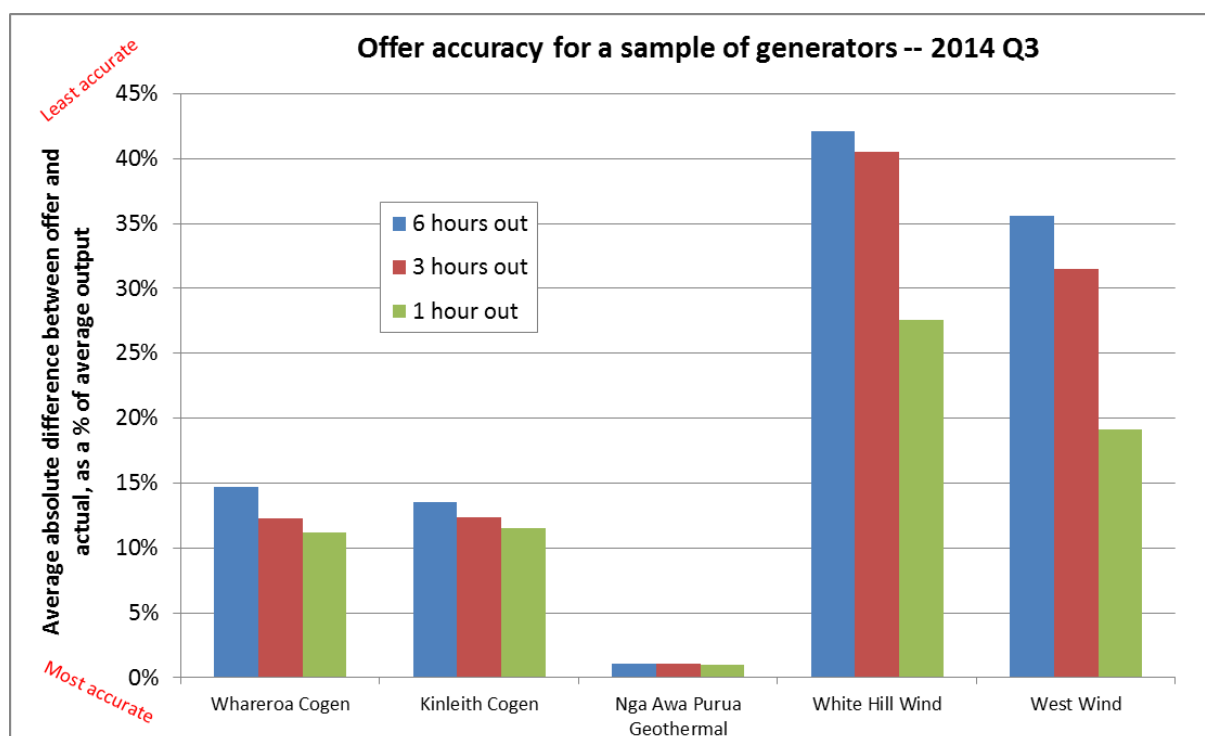
2.2 The Authority will monitor the accuracy of offers

- 2.2.1 The Authority has also decided to improve its monitoring of the accuracy of offers placed by co-generators. This decision does not require an

amendment to the Code, but is described in this paper for the information of participants.

- 2.2.2 The focus of this monitoring will be on ensuring that co-generators continue to make reasonable efforts to ensure their offers are a reasonable estimate of their ability to generate.
- 2.2.3 To date, the Authority has monitored generators' offers by comparing final offers with actual generation. From 27 May 2015, the Authority will also be able to analyse the accuracy of offers placed multiple hours in advance of real time. The Authority will publish this information. Figure 1 illustrates how this analysis could be presented.
- 2.2.4 The example shown in Figure 1 covers co-generators and other largely non-discretionary generators such as wind, geothermal, and run-of-river hydro for comparison purposes.
- 2.2.5 The Authority may encourage a generator to improve the accuracy of its offers if its offers:
- (a) are less accurate than other generators of the same type, and/or
 - (b) become less accurate over time.

Figure 1 Illustrative analysis of the accuracy of generation offers



3. Process followed by the Authority

3.1 Co-generation offer and dispatch provisions were last reviewed in 2006

- 3.1.1 Co-generators have been required to place and revise offers, and to comply with dispatch instructions, since the commencement of the Electricity Governance Rules 2003.
- 3.1.2 In 2006 the Electricity Commission reviewed the co-generation offer and dispatch rules, and published a consultation paper entitled 'Review of the offer and dispatch rules for co-generation plant'.⁴
- 3.1.3 Following the 2006 consultation, the Electricity Commission:
- (a) created the process for generators to apply to be co-generators, and for the Electricity Commission to approve (or decline to approve) the application
 - (b) widened the dispatch band from $\pm 1\text{MW}$ to $\pm 5\text{MW}$ for co-generators
 - (c) restricted co-generators from offering at a price of more than $\$0.01/\text{MWh}$.
- 3.1.4 The reasons given for the Electricity Commission's proposal were:
- (a) the application of special rules requires a process for assessing the validity of parties' applications for treatment under these rules
 - (b) the increased dispatch band was consistent with the existing exemptions, and was considered reasonable while still enabling the system operator to meet its principal performance obligations⁵
 - (c) the restriction on offer price was to mitigate any possible gaming behaviour related to the wider dispatch compliance band.
- 3.1.5 Not all participants found the Electricity Commission's approach satisfactory. In submissions:⁶
- (a) Carter Holt Harvey Pulp & Paper recommended that:
 - (i) if the Electricity Commission's proposal was adopted, the dispatch band should be wider than $\pm 5\text{MW}$ providing this would not compromise system security

⁴ <http://www.ea.govt.nz/about-us/what-we-do/our-history/archive/dev-archive/consultations/wholesale-consultations/2006/review-of-the-offer-and-dispatch-rules-for-co-generation-plant/>

⁵ Some co-generators had been granted an exemption from the rule requiring compliance with dispatch instructions provided they stayed within 5MW of any dispatch instruction issued by the system operator.

⁶ <http://www.ea.govt.nz/about-us/what-we-do/our-history/archive/dev-archive/consultations/wholesale-consultations/2006/review-of-the-offer-and-dispatch-rules-for-co-generation-plant/submissions-for-review-of-the-offer-and-dispatch-rules-for-co-generation-plant/>

- (ii) it would be preferable to treat co-generation in the same way as wind generation
- (b) Alinta ENZ Limited indicated that it would prefer a wider dispatch band than $\pm 5\text{MW}$
- (c) Norske Skog Tasman Limited considered the proposal to be fundamentally flawed, showing a lack of understanding of the inherent variability of co-generation.

3.2 The Authority received submissions in 2014

- 3.2.1 Regulatory arrangements relating to co-generation offer and dispatch did not change materially between 2006 and 2012.
- 3.2.2 In November 2012, CHH submitted a Code amendment proposal recommending that co-generation should be treated in the same way as wind generation.⁷
- 3.2.3 In response, the Authority reviewed offer and dispatch rules for co-generation.
- 3.2.4 In August 2014, the Authority published a consultation paper 'Industrial co-generator dispatch arrangements'.⁸ The 2014 consultation paper set out an alternate proposal, developed in collaboration with the system operator.
- 3.2.5 The Authority received nine submissions on the August 2014 consultation paper from:
 - (a) Alinta ENZ Limited (Alinta)
 - (b) Carter Holt Harvey Pulp & Paper Limited
 - (c) Contact Energy Limited (Contact)
 - (d) Fonterra Co-operative Group Limited (Fonterra)
 - (e) Major Energy Users Group (MEUG)
 - (f) Meridian Energy Limited (Meridian)
 - (g) Nova Energy Limited (Nova)
 - (h) NZX Limited (NZX)
 - (i) Trustpower Limited (Trustpower).
- 3.2.6 The Authority has published the submissions on its website at: <http://www.ea.govt.nz/development/work-programme/wholesale/industrial-co-generation-dispatch-arrangements/consultations/#c13834>.

⁷ <http://www.ea.govt.nz/development/work-programme/wholesale/>

⁸ <http://www.ea.govt.nz/development/work-programme/wholesale/industrial-co-generation-dispatch-arrangements/consultations/#c13834>

3.2.7 The Authority has considered the submissions received. The summary of submissions is published on the Authority's website and provides an overview of the points raised by submitters in submissions.⁹

⁹ <http://www.ea.govt.nz/development/work-programme/wholesale/industrial-co-generation-dispatch-arrangements/>

4. The Authority's reasons for its decisions

4.1 Submitters agree the proposed Code amendment meets the Code amendment principles

4.1.1 The August 2014 consultation paper set out the Authority's view that the proposed Code amendment:

- (a) would support the competition and efficiency limbs of the Authority's statutory objective, while not affecting the reliability limb
- (b) would provide a net economic benefit
- (c) was preferable to the alternative options
- (d) complied with section 32(1) of the Electricity Industry Act 2010 (Act)
- (e) complied with the Code amendment principles.

4.1.2 All nine submitters supported the Authority's proposed Code amendment. None of the submissions provided information that persuaded the Authority not to proceed with the proposed Code amendment.

4.1.3 All submitters also agreed that the objectives for the proposed Code amendment were appropriate and consistent with the Authority's statutory objective, and that the proposed Code amendment would achieve most or all of its objectives.

4.1.4 Some submitters raised concerns that the proposed Code amendment would not fully achieve its objectives or could have unintended consequences because:

- (a) the requirement for type B co-generators to place and revise offers would remain; or
- (b) there would not be sufficient incentives for type B co-generators to submit accurate offers.

4.1.5 These concerns are discussed in Section 4.2.

4.1.6 The Authority received eight submissions on the question about economic benefits. All agreed that the proposed amendment would produce an expected net positive economic benefit. Some submitters provided further information on the likely benefits of the proposed amendment:

- (a) Alinta noted that at the Glenbrook steel mill '*a further estimated 400MWh per annum could be generated by not having to wait for dispatch orders to allow boilers to be started, plus a further estimated 200MWh generation per annum by being able to utilise process gases when they are available rather than waiting to be dispatched*'

- (b) Fonterra commented that the proposed Code amendment would *'remove unnecessary costs and improve the accuracy of the electricity market'*
- (c) Nova responded that *'the ability of co-gen plants to recommence generation following any form of outage will have a significant benefit to operators; both in terms of the additional electricity generated, and reduced complexity in the timing and process of restarting equipment... there is also a wider benefit of improved reliability of energy supply to the co-generator's host site when the plant operators can focus on that, rather than managing the level of net electricity exports'*.

4.1.7 All nine submitters agreed that the proposed Code amendment was preferable to the alternatives identified in the consultation paper. The alternatives considered were:

- (a) treating some co-generation as intermittent generation. The key difference between this option and the proposal is that, under this option, co-generators that were being treated as intermittent generators under the Code would be required to submit persistence offers during the two hours leading up to real-time. This was not preferred because, relative to the proposal, it would increase compliance and implementation costs and could lead to less accurate information being included in the forecast schedules¹⁰
- (b) allowing some co-generation to switch in and out of 'persistence dispatch' mode. Under this option co-generators could choose to switch between dispatch based on offers and persistence dispatch. This option would require substantive changes to the market systems with higher implementation costs than the proposal. The benefits to co-generators would be less than the proposed Code amendment as they would still need to take action in the event of a plant disturbance
- (c) automatically switching some co-generation in and out of 'persistence dispatch' mode. This option would also require substantive changes to market systems to implement the switching functionality. Although the annual benefits would be similar to those of the proposal, they would be deferred while the [system operator] implemented system changes
- (d) keep the status quo. Co-generators would continue to offer and be dispatched as they currently are, and would experience the same difficulties.

¹⁰ The price responsive schedule (PRS) and the non-response schedule (NRS)

- 4.1.8 All nine submitters agreed that the proposed Code amendment complied with section 32(1) of the Act.¹¹
- 4.1.9 Of the eight submitters that responded to the question about whether the proposed Code amendment complied with the Code amendment principles, all agreed that it complied.

4.2 Type B co-generators must place and revise offers

- 4.2.1 The consultation paper set out that, under the proposed Code amendment, type A and type B co-generators would still be required to place and revise offers. As stated in the consultation paper, the system operator has advised this is necessary for system security.
- 4.2.2 Trustpower and CHH suggested that the benefits of the proposed Code amendment would be limited by continuing to require co-generators to place and revise offers:
- (a) Trustpower commented that it *'does not believe the benefits will be realised as proposed, due to the obligation on co-generators to continue to offer and revise offers, including unforeseeable bona fide offer revisions, as they currently do'*
 - (b) similarly, CHH commented that *'there is some uncertainty whether bona fide revisions to offers are still expected to be submitted – if this is the case then the cost of compliance to industry would not be reduced as much as the Authority's proposal suggested'*
 - (c) CHH added that *'[its] interpretation of the intent of the rule change is to allow the intermittent rules to take care of the short term variation... while Production Staff at the site focus on resolving the production issues, and that planned or expected changes in generation would be where revisions to offers were made'*.
- 4.2.3 Despite these comments, both submitters agreed that the proposed Code amendment would deliver a net economic benefit and should proceed.
- 4.2.4 It is important for generators to provide accurate offers, in order to support the accuracy of pre-dispatch schedules and assist the system operator to determine whether there will be enough generation to meet demand. The system operator has advised that *'to support the system operator's ability to meet system security it is vital that the co-generators... make all*

¹¹ Section 32(1) sets out that *'the Code may contain any provisions that are consistent with the objective of the Authority and are desirable to promote any or all of the following: (a) competition in the electricity industry: (b) the reliable supply of electricity to consumers: (c) the efficient operation of the electricity industry: (d) the performance by the Authority of its functions: (e) any other matter specifically referred to in [the] Act as a matter for inclusion in the Code'*.

*reasonable efforts to ensure the accuracy of their offers before and after gate closure’.*¹²

- 4.2.5 The Authority supports the system operator’s view and has decided to proceed with the Code amendment as proposed (subject to the minor changes set out in Section 5).
- 4.2.6 A revised version of the cost-benefit analysis (CBA) is included as Section 4.3. The revised CBA shows that the Code amendment is still expected to deliver a net economic benefit.
- 4.2.7 Some submitters commented on the need for monitoring offers.
- 4.2.8 Contact expressed *‘concerns as to how the Authority would monitor the accuracy of type B co-generator offers’*, noting that *‘a sufficient mismatch between offers and actual output can result in frequency keeping issues and unnecessary start/stopping of thermal peaking plant’*.
- 4.2.9 Meridian expressed *‘concern that type B co-generators will have little financial incentive to submit accurate offers into the forecast schedules’*, and noted that it considered the proposed monitoring of co-generation offers to be essential. Meridian further recommended that *‘regular reports [should] be released (at least initially) on the findings of this monitoring’*.
- 4.2.10 The Authority concurs that it is important to monitor the accuracy of generator offers, and to provide the industry with information about them.
- 4.2.11 Type B co-generator offers will no longer be used in the dispatch schedule. However, type B co-generators must continue to make efforts to submit accurate offers because they will be used:
- (a) in the price-responsive schedule (PRS) and non-response schedule (NRS), which provide information to market participants
 - (b) by the system operator for security purposes.
- 4.2.12 Therefore, as set out in Section 2.2, the Authority has decided to improve its monitoring of the accuracy of co-generators’ offers. The Authority will now monitor the accuracy of offers placed hours in advance of real time.
- 4.2.13 This monitoring is not intended solely for compliance purposes. Rather, it is intended to drive ongoing improvement in offer quality. It will achieve this by:
- (a) assisting co-generators to assess the accuracy of their own offers
 - (b) assisting the Authority to identify co-generators that may have the potential to improve the accuracy of their offers, so that the Authority can encourage these co-generators to make additional efforts.

¹² Page 6 of Appendix C of <http://www.ea.govt.nz/dmsdocument/18368>

- 4.2.14 The costs incurred in carrying out this analysis will be modest, and are incorporated in the revised CBA in Section 4.3.
- 4.2.15 The Authority may also extend this monitoring to other largely non-discretionary generators such as wind, geothermal, and run-of-river hydro. Doing so:
- (a) could yield additional benefits, through encouraging these types of generators to improve the accuracy of their offers
 - (b) would not impose additional costs.
- 4.2.16 Meridian recommended that *'the Authority [should] undertake a post-implementation review to ensure the expected benefits of the proposal are being realised and that unintended consequences have been avoided'*.
- 4.2.17 Since 2011, the Authority has signaled it is good regulatory practice to undertake post-implementation reviews of its significant initiatives. These reviews are undertaken progressively, in order of priority, when sufficient information is available on how the initiative has affected participants' behaviour. As this initiative is reasonably small, it is not intended to automatically be the subject of a post-implementation review. Rather, the Authority will monitor the effects of the Code amendment and investigate further, potentially including a post-implementation review, if it considers this is warranted in the circumstances.

4.3 The Authority expects the proposed Code amendment to provide a net economic benefit

- 4.3.1 The August 2014 consultation paper estimated the expected net economic benefit of the proposal to be \$0.88 million PV – calculated as the sum of:
- (a) an expected productive efficiency benefit of \$0.81 million PV through reduction in CHH's operational costs
 - (b) an expected productive efficiency benefit of \$0.20 million PV through reduction in other co-generators' operational costs
 - (c) an expected cost of \$0.13 million PV, to be incurred by the clearing manager in implementing the proposed Code amendment.
- 4.3.2 The Authority has now updated the CBA to take into account the following additional information that was presented in submissions and the additional costs of increased monitoring of offers:

- (a) Nova and Alinta's submissions identified additional expected economic benefits that were not included in the consultation paper, that are worth approximately \$0.30 million PV¹³
- (b) Trustpower and CHH's submissions indicate that the productive efficiency benefit may not be as great as was originally estimated, because co-generators must still place and revise offers
- (c) improving monitoring of offer accuracy as set out in Section 2.2 will incur a small implementation cost, indicatively \$3,000.¹⁴

4.3.3 The revised CBA includes two scenarios:

- (a) a base case, in which the productive efficiency benefit is:
 - (i) \$0.81 million PV for CHH, as in the original consultation paper
 - (ii) \$0.30 million PV for other co-generators, as per Nova and Alinta's submissions
- (b) a sensitivity, in which the productive efficiency benefit is:
 - (i) \$0.16 million PV for CHH – i.e. just 20% of the value assumed in the original consultation paper
 - (ii) \$0.30 million PV for other co-generators, as per Nova and Alinta's submissions.

4.3.4 In both scenarios, the Code amendment is still expected to provide a net economic benefit (Table 1).

Table 1: Cost-benefit analysis of the amendment

	Base case	Sensitivity
Expected productive efficiency benefit through reduction in CHH's operational costs (\$m PV)	0.81	0.16
Expected productive efficiency benefit through reduction in other co-generators' operational costs (\$m PV)	0.30	0.30
Expected implementation cost (\$m PV)	0.13	0.13
Expected net economic benefit (\$m PV)	0.98	0.33
Evaluation	Expected net economic benefit	Expected net economic benefit

¹³ Based on Alinta's information that an additional 600MWh of generation could be produced per year. Assuming this generation has a net economic value of \$50/MWh, then the net economic benefit is $600 * 50 = \$30,000$ per year, or approximately \$0.3 million PV at an 8% real discount rate over 20 years.

¹⁴ Estimated as two days of analyst time at \$1,500 per day.

5. Changes made to the proposed Code amendment since consultation

5.1 Only minor changes to the proposed Code amendment were made

- 5.1.1 Following consideration of submissions, the Authority made minor changes to the Code amendment in the August 2014 consultation paper, as shown in Appendix B.
- 5.1.2 NZX provided three drafting suggestions:
- (a) the title of clause 13.137 ('Generators to provide half-hour metering information for unoffered and intermittent generation') should be amended to clarify that the clause now also applies to type B co-generators
 - (b) clause 13.139 ('Half-hour metering information part of input information') should be updated to reflect changes to other clauses
 - (c) clause 13.145 ('Grid owner to give notice that estimated data given') should be extended to require the grid owner to indicate whether estimated information refers to dispatchable load or co-generation.
- 5.1.3 The Authority has adopted suggestion (a) because it provides additional clarity about the effect of the amendment at no additional cost.
- 5.1.4 The Authority included suggestion (b) and part of suggestion (c) with another related minor Code amendment proposal, which it has already made.¹⁵ The Authority will adopt the reminder of suggestion (c), that relating to co-generation.
- 5.1.5 Under the proposal, the Authority would have six months to approve (or decline to approve) an application for a generating unit to be classified as a type A or type B industrial co-generating station.
- 5.1.6 CHH and MEUG suggested that this approval period should be reduced to three months.
- 5.1.7 The Authority has not adopted this suggestion, because there may be complex issues associated with an application that take more than three months to resolve. However, the Authority expects that it would usually be possible to make a decision in a considerably shorter time frame.

¹⁵ See "Electricity Industry Participation Code Amendment (Minor Code Amendments) (No 3) 2014" at <http://www.ea.govt.nz/code-and-compliance/the-code/amendments/2014-code-amendments/>

- 5.1.8 Nova noted that there was some uncertainty about the criteria that the Authority would use in making its decision, and recommended that either:
- (a) the Code should specify that a co-generation plant would be classified as a type B co-generator providing it satisfied certain criteria; or
 - (b) the Authority should be guided by its objectives under the Act.
- 5.1.9 The Authority has decided not to adopt these suggestions because it considers that the amendment already provides sufficient certainty about the criteria that the Authority will use. When making its decision, the Authority must consider the factors in clause 4 of Schedule 13.4. This clause specifically requires the Authority to consider section 15 of the Act: its statutory objective.
- 5.1.10 Contact recommended that a type B co-generator should still be required to comply with dispatch instructions at times when it is not *'making full use of the available fuel source'*.
- 5.1.11 The Authority has decided not to adopt this suggestion because it would reduce the net benefit of the amendment by:
- (a) reducing the amount of dispatch flexibility available to type B co-generators
 - (b) increasing the cost of monitoring and enforcing the Code amendment.
- 5.1.12 After submissions closed, the system operator and the grid owner advised they would need up to 10 business days following notification of an approval of a type B co-generator to modify their systems. The Authority has revised clauses 8(3) and 10 of Schedule 13.4 accordingly.

5.2 The Authority will review the gate closure period for industrial co-generation as part of its gate closure review project

- 5.2.1 At present, embedded co-generators that offer into the market are subject to 30-minute gate closure, but grid-connected co-generations are subject to two-hour gate closure.
- 5.2.2 The August 2014 consultation paper did not propose changes to the gate closure arrangements. However, it did note the Authority planned to review gate closure rules, and ask whether stakeholders agreed that *all* co-generation should be subject to 30-minute gate closure.
- 5.2.3 All nine submitters agreed that 30-minute gate closure should be extended to grid-connected co-generation. MEUG added the caveat that the merits

of this change should be further considered as part of the gate closure review project.

- 5.2.4 The Authority is progressing a project to review gate closure for all offers, bids, and reserve offers.¹⁶ As part of the project, the Authority will review gate closure arrangements for co-generation. The Authority expects to consult on gate closure arrangements in May/June 2015.

¹⁶ Item 2.18 on the Authority's 2014/15 work programme.

6. When the Code amendment will be implemented

- 6.1.1 To implement the Code amendment, the system operator does not need to make any significant changes to its systems and processes. However, the system operator will need to make some minor “business as usual” changes when the Authority approves each new type B co-generator.
- 6.1.2 There are no implementation requirements on co-generators, other than preparing an application to become a type B co-generator (if they so choose).
- 6.1.3 The clearing manager has advised that it must make some changes to its systems and processes before the Code amendment takes effect. These changes are scheduled to be completed by late-May 2015.
- 6.1.4 The Code amendment is not urgent. However, the sooner it comes into force, the sooner its benefits will be realised.
- 6.1.5 Therefore, the amendment will come into force on 27 May 2015, shortly after the clearing manager’s changes are scheduled to be completed.

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
Code	Electricity Industry Participation Code 2010
co-generator	The owner of an industrial co-generating station, which means one or more generating units: • that are connected to the grid or to a local network • that are reliant on a co-located industrial process • that are tightly coupled to an industrial process • that have been approved by the Authority under Schedule 13.4 of the Code
dispatch	The process through which the system operator sends instructions to generators, ancillary service agents, and dispatched loads, indicating how they should operate
embedded generating station	One or more generating units that are directly connected to a local network or an embedded network and that inject into a local network or an embedded network at a single point of injection
embedded network	The lines, equipment, and plant that are used to convey electricity between two points, when: • one point is a point of connection between a local network or other embedded network • the other point is a consumer or an embedded generating station, or both
final pricing	The process that generates the prices on which the wholesale electricity spot market is settled
gate closure	Restrictions on changing bids or offers shortly before real time
intermittent generator	Under the Code, wind generators are intermittent generators
local network	The lines, equipment, and plant that are used to convey electricity between the grid and one of: • an embedded generator • an embedded network • an installation control point

persistence offer	Revised offers that intermittent generators are required under clause 13.17(3) to make in the 2 hours immediately before the trading period to which an offer relates. The offers must be based on a persistence model using actual output from the generating station at the time the revised offer is submitted
type A co-generator	Under the Code amendment, a co-generator that continues to operate under existing offer and dispatch rules
type B co-generator	Under the Code amendment, a co-generator that obtains approval to be treated in the same way as intermittent generation in some respects.

Appendix A Draft amendment to the Electricity Industry Participation Code 2010

Draft Code amendment – strikethrough version

A.1 Tracked changes indicate the changes that will be made by the Code amendment, with changes made following the August 2014 consultation in **green**.

Changes to Part 1

~~co-generator~~ means the owner of an ~~industrial co-generating station~~. To avoid doubt, clauses specifying ~~co-generators~~ apply only to the ~~industrial co-generating stations~~ owned by the ~~co-generator~~

generator means a person who owns **generating units** connected to a **network**, or any person who acts, in respect of Parts 13, 14 and 15, on behalf of any person who owns such **generating units**, and includes **embedded generators**, **intermittent generators**, and **type A co-generators**, and **type B co-generators**

industrial co-generating station means **1 or more generating unit a generating station that—**

- ~~(a) that is connected to the grid or to a local network; and~~
- ~~(b) that is reliant on a co-located industrial process because—~~
 - (i) it derives its fuel source from that co-located **industrial process**; or
 - (ii) it provides some or all of the **electricity** that it generates to that co-located **industrial process**; or
 - (iii) it provides some or all of any by-product of generating **electricity** to that co-located **industrial process**; and
- ~~(c) that is tightly coupled to an industrial process; and~~
- ~~(d) that has been approved by the Authority under clause 8(1)(a) or (b) of Schedule 13.4~~

metering situation means a situation in which—

- (a) the **metering information** to be given is incomplete or incorrect or is and remains an **initial estimate** for—
 - (i) a **grid exit point** or **grid injection point** specified on the **annual consumption list** as having **historical annual consumption** greater than 500 GWh; or
 - (ii) any 2 or more **grid exit points** or **grid injection points** specified on the **annual consumption list** as having **historical annual consumption** greater than 300 GWh; or
 - (iii) any 10 or more **grid exit points** or **grid injection points**; or
 - (iv) an **intermittent generating station** with a **point of connection** to the **grid**; or
 - (v) a **type B industrial co-generating station** with a **point of connection** to the **grid**; or

- (b) the **metering information** for a **dispatch-capable load station** given for a **trading period** is incomplete or incorrect or is and remains an **initial estimate** for a **grid exit point** at which a **nominated dispatch bid** has been submitted for the **trading period**

type A co-generator means the owner of a **type A industrial co-generating station**, in its capacity as owner of that **industrial co-generating station**

type B co-generator means the owner of a **type B industrial co-generating station**, in its capacity as owner of that **industrial co-generating station**

type A industrial co-generating station means an **industrial co-generating station** approved by the **Authority** under clause 8(1)(a)(i) of Schedule 13.4

type B industrial co-generating station means an **industrial co-generating station** approved by the **Authority** under clause 8(1)(b)(ii) of Schedule 13.4

...

Changes to Part 13

13.1 Contents of this Part

This Part provides for processes by which—

...

- (e) **generators** ~~may apply for approval from to~~ the **Authority** to have ~~co-generator status 1~~ or more **generating units** approved as—
- (i) **a type A industrial co-generating station**; or
 - (ii) **a type B industrial co-generating station**; and

...

13.3 Approval process for industrial co-generating stations

A **generator** may apply to the **Authority** ~~for approval for to have~~ 1 or more **generating units** ~~to be approved as—~~

- (a) **a type A industrial co-generating station** in accordance with ~~under~~ clause 8(1)(a)(i) of Schedule 13.4; or
- (b) **a type B industrial co-generating station** under clause 8(1)(b)(ii) of Schedule 13.4.

...

13.9 Information that offers must contain

Each **offer** submitted by a **generator** must—

- (a) other than for **intermittent generators**, and **type A co-generators** and **type B co-generators**, contain all information required by Form 1 in Schedule 13.1; and
- (b) in relation to the **generating plant** that is the subject of the **offer**, not exceed, for each **trading period**, the **generator's** reasonable estimate of the quantity of **electricity** capable of being supplied at that **grid injection point** by the relevant **generating plant** for the relevant **trading period**; and
- (c) if the **offer** is submitted by an **intermittent generator** for an **intermittent generating station**,—

- (i) contain the information required by Form 2 in Schedule 13.1; and
- (ii) have a maximum of 1 price band for each **trading period**; and
- (iii) specify a price of either \$0.00 (subject to clause 13.116) or \$0.01 for the price band; and
- (d) if the **offer** is submitted by a **type A co-generator** for an **type A industrial co-generating station** or by a **type B co-generator** for a **type B industrial co-generating station**,—
 - (i) contain the information required by Form 3 in Schedule 13.1; and
 - (ii) have a maximum of 2 price bands for each **trading period**; and
 - (iii) specify a price of either \$0.00 (in accordance with clause 13.116) or \$0.01 for the price band.

...

13.82 Dispatch instructions to be complied with

...

- (2) Each **participant** to which this clause applies must comply with a **dispatch instruction** properly issued by the **system operator** under clause 13.72 unless,—

...

- (i) the **participant**—

...

- (iii) has no reasonable means of complying with the **dispatch instruction** while acting in accordance with the commissioning or test plan; or

- (j) the **participant** is a **type B co-generator** and the **system operator** has not advised that there is—

- (i) a **grid emergency**; or

- (ii) a system **constraint** that directly affects the **type B co-generator**.

...

13.86 Generators and ancillary service agents not obliged to comply with dispatch instructions below threshold

For any **generating plant**, **generating unit**, **block dispatch group** or **station dispatch group**, a **generator** or **ancillary service agent** is not required to comply with 1 or more **dispatch instructions** given by the **system operator** in accordance with clause 13.72(1)(a) if implementing the **dispatch instruction** or those **dispatch instructions** together would change by less than or equal to—

- (a) for **ancillary service agents**, 1 MW from the last **dispatch instruction** that the **ancillary service agent** complied with; or
- (b) for **generators** other than **type A co-generators**, 1 MW from the last **dispatch instruction** that the **generator** complied with; or
- (c) for **type A co-generators**, 5 MW from the last **dispatch instruction** that the **generator** **type A co-generator** complied with.

...

13.136 Generators to provide half-hour metering information

- (1) Each **generator** must give the **pricing manager**, and each **embedded generator** must give the **pricing manager** and the **grid owner** connected to the **local network** in which the **embedded generator** is located, **half-hour**

metering information in accordance with clause 13.138 in relation to **generating plant** that is subject to a **dispatch instruction**—

- (a) that injects **electricity** directly into a **local network**; or
 - (b) if the **meter** configuration is such that the **electricity** flows into a **local network** without first passing through a **grid injection point** or **grid exit point metering installation**.
- (2) To avoid doubt, subclause (1) **excludes does not apply in respect of**
- (a) any unoffered generation;** or
 - (b) electricity supplied from—**
 - (ai) an intermittent generating station; or**
 - (bii) a type B industrial co-generating station.**

13.137 ~~Unoffered and intermittent generation~~Generators to provide half-hour metering information for unoffered and intermittent generation and type B industrial co-generation

- (1) Each **generator** must give the **pricing manager** and the relevant **grid owner** **half-hour metering information** for—
 - (a) **unoffered generation** from a **generating station** with a **point of connection** to the **grid**; and
 - (b) **electricity** supplied from an **intermittent generating station** with a **point of connection** to the **grid**; and
 - (c) **electricity** supplied from a **type B industrial co-generating station** **with a point of connection to the grid**.
- (2) To avoid doubt, each **generator** must give the **pricing manager** and the relevant **grid owner** the **half-hour metering information** required under this clause in accordance with the requirements of Part 15 for the collection of the **generator's volume information**.
- (3) If the **half-hour metering information** is not available, the **generator** must give the **pricing manager** and the relevant **grid owner** a reasonable estimate of such data.

...

13.141 Pricing manager to use certain input information

- (1) The **pricing manager** must use the following **input information**:
 - (a) for existing generation configuration—
 - (i) data specifying the instantaneous **MW injection** at the **grid injection point** at the beginning of each **trading period** for each **generating plant** and each **generating unit** that was the subject of **offers** for that **trading period**; or
 - (ii) if no such data is available, a reasonable estimate of such data:
 - (b) for actual **demand** over the **trading period**,—
 - (i) the **demand half-hour metering information** described as L_{MA} below must be calculated as follows:
$$L_{MA} = G_{EA} + L_{MX} - L_{DCLS} \text{ (for a grid exit point)}$$
$$L_{MA} = G_{EA} - L_{MI} - L_{DCLS} \text{ (for a grid injection point)}$$

$L_{MA} = L_{MX} - L_{DCLS} - UIG_{EA}$ (for an **intermittent generating station** with a **point of connection** to the **grid**, and/or **unoffered generation** from a **generating station** with a **point of connection** to the **grid**, and/or a **type B industrial co-generating station** with a **point of connection to the grid**)

where

L_{MA} is the adjusted quantity of **electricity** measured in **MWh** by a **metering installation** at a **grid exit point** or **grid injection point**

L_{MX} is the unadjusted **half-hour metering information** for the quantity of **electricity** measured in **MWh** at a **grid exit point**

L_{MI} is the unadjusted **half-hour metering information** for the quantity of **electricity** measured in **MWh** at a **grid injection point**

L_{DCLS} is the adjusted **half-hour metering information** for the quantity of **electricity** measured in **MWh** used by a **dispatch-capable load station** for the **trading periods** that the **system operator** listed under clause 13.138B

G_{EA} is the adjusted **half-hour metering information** given to the **pricing manager** under clause 13.136

UIG_{EA} is the information given to the **pricing manager** under clause 13.137:

- (ii) if any of the **half-hour metering information** is not available, an **initial estimate** for each **grid exit point** or **grid injection point**:
- (iii) to avoid doubt, each **grid owner** must provide the **half-hour metering information** to the **pricing manager** required under this clause in accordance with Part 15 for the collection of that **grid owner's volume information**:
- (c) the final **offers** for each **trading period** submitted by **generators** and provided to the **pricing manager** by the **system operator** in accordance with clause 13.63. ~~The pricing manager must remove all offers from intermittent generators from this information before using it in the pricing process:~~
- (ca) the final submitted **nominated dispatch bid** for each **trading period** that was provided to the **pricing manager** by the **system operator** in accordance with clause 13.63:
- (d) the final **reserve offers** for each such **trading period** as given by **ancillary service agents** in accordance with clauses 13.37 to 13.54:
- (e) the final information provided to the **system operator** by a **grid owner** under clauses 13.29 to 13.34 for each **trading period** that the **system operator** notifies in accordance with clause 13.63.

(1AA) The **pricing manager** must remove all **offers** from the following **participants** from the information specified in subclause (1)(c) before using it in the pricing process:

- (a) **intermittent generators** with a **point of connection to the grid**; and
- (b) **type B co-generators**.

- (1A) Each **grid owner** must give the **pricing manager** the information the **pricing manager** is required to use under subclause (1)(a)—
 - (a) by 0730 hours on each **trading day**; and
 - (b) for each **trading period** of the previous **trading day**; and
 - (c) in the manner and form agreed by the **pricing manager** and each **grid owner**.
- (2) Each **grid owner** must give the information required by subclause (1)(b) to the **pricing manager** by 0730 hours on a **trading day** for each **trading period** of the previous **trading day**. Each **grid owner** must provide this information in the form specified by the **pricing manager**.
- (3) The **pricing manager** must **publish** the information by 1000 hours on a **trading day** for each **trading period** of the previous **trading day**.
- (4) If the **pricing manager** receives revised demand **half-hour metering information** in accordance with clauses 13.135 to 13.140, and if the revised information resolves a **provisional price situation**, the **pricing manager** must **publish** the revised demand **half-hour metering information** no later than the time at which it is required to **publish interim prices** and **interim reserve prices**.
- (5) If the **pricing manager** receives the revised information after it has **published** information in accordance with subclauses (1)(b) and (2) to (4), it must **publish** the revised information by replacing the previously **published** information with the revised information.

...

13.145 Grid owner to give notice that estimated data given

If a grid owner gives the pricing manager estimated input information in accordance with clauses 13.141(1)(a)(ii) or (b)(ii), the grid owner must, by 0730 hours on the day the relevant input information is required by clause 13.141—

- (a) **publish** notice of any **input information** that is estimated; and
- (b) specify in the notice whether the estimated information relates to **SCADA** or **half-hour metering information**; and
- (c) give details in the notice of the **grid exit points** and **grid injection points** to which the estimated information relates.
- (d) specify in the notice whether the estimated information relates to a **dispatch capable load station** or a type B industrial co-generating station; and
- (e) specify in the notice the **trading periods** for which the input information is estimated for each relevant **grid exit point**, **grid injection point**, and **dispatch capable load station**.

...

Form 3
Type A or Type B Co-generator Offer

Date: _____

Type A/Type B

Co-generator

Participant Identifier: _____

Type A/Type B

Co-generator Name: _____

Grid Injection Point: _____

Generator Category (clause 13.10 of the Code): Unit Station

Type A/Type B Co-generator Maximum Output (including overload): _____ **MW**

Trading Period: _____ Starting at _____ : _____ 0 hours

Maximum Generator Ramp Up Rate: _____ **MW/hr**

Maximum Generator Ramp Down Rate: _____ **MW/hr**

Offer to sell electricity

Band 1: **From 0 MW to _____ MW @ \$ _____ per MWh**

Band 2: **plus _____ MW @ \$ _____ per MWh**

...

Schedule 13.3 The Modelling System

...

7 Dispatch schedule

For a **dispatch schedule**, the schedule must use—

- (a) from ~~generators and ancillary service agents, generator offers~~ (clause 13.6(1) to (3), excluding ~~offers made by intermittent generators~~ under clause 13.6(3)) and revised ~~offers~~ (clause 13.17(1) and (2), excluding ~~offers made by intermittent generators~~ under clause 13.17(3)) and ~~ancillary service agent reserve offers~~ (clause 13.38(1)) and revised ~~reserve offers~~ (clause 13.46(1) and (2)), excluding the following:
 - (i) offers made by an intermittent generator under clause 13.6(3):
 - (ii) revised offers made by an intermittent generator under clause 13.17(3):
 - (iii) offers made by a type B co-generator under clause 13.6(1) or (2):
 - (iv) revised offers made by a type B co-generator under clause 13.17(1) or (2); and

...

Schedule 13.4

cl 13.3

Approval of as type A or type B industrial co-generating station

1 ~~Authority to approve industrial co-generating stations~~ Generators to apply to Authority for approval

- (1) A generator may apply to the Authority to have 1 or more generating units approved as for approval as an—
 - (a) a type A industrial co-generating station; or
 - (b) a type B industrial co-generating station.

2 ~~Applications for approval requirements~~

- (1) EachAn application for approval as an ~~industrial co-generating station~~ must be in writing and—
 - (a) be in writing; and
 - (b) must state specify each generating unit that the applicant wishes wants to have approved as an industrial co-generating station; and
 - (c) must include information related to any seasonal operation of the each generating units; and
 - (d) specify whether the applicant wishes wants the generating unit to be approved as—
 - (i) a type A industrial co-generating station; or
 - (ii) a type B industrial co-generating station.

- (2) ~~(c) An application applicant may include any supporting information for the application that the applicant considers may assist the Authority with the application, to consider the application.~~

...

4 Factors that Authority must consider

Before the Authority approves an application-generating unit, it must take into account—

- (a) the **system operator's** views as to the effect an approval would have on the **system operator's** ability to meet the **PPOs**; and
- (b) the cumulative effects, if the approval were granted, of all approvals granted under this Schedule on the **system operator's** ability to meet the **PPOs**; and
- (c) any views that may be made known to the **Authority** within the time specified by the **Authority** when it **publicised** the application in accordance with clause 3(a); and
- (d) ~~how whether each the application-generating unit that is the subject of the application comes within the requirements specified in~~ complies with paragraphs (a) to (c) of the definition of industrial co-generating station set out in Part 1; and
- (da) the implications of each generating unit that is the subject of the application being approved in accordance with the applicant's preference specified under clause 2(1)(ba), having regard to the obligations on type A co-generators and type B co-generators; and
- (e) section 15 of the **Act**.

...

7 Applicant may withdraw or amend application at any time

- (1) The applicant may, at any time, withdraw or amend an application being considered by the **Authority**.
- (2) ~~An amendment or withdrawal must be made in writing and submitted to the Authority and takes effect from the date of receipt by the Authority.~~
- (a) ~~must be made in writing; and~~
 - (b) ~~must be submitted to the Authority; and~~
 - (c) ~~takes effect from the date of receipt by the Authority.~~

8 Authority's decision

- (1) The **Authority** must, no later than 6 months after receiving an application,—
- (a) approve each generating unit that is the subject of the application as a type A industrial co-generating station; or

- (b) approve each **generating unit** that is the subject of the application as a **type B industrial co-generating station**; or
 - (c) decline to approve the application.
- (2) ~~If the Authority proposes to approve an application but does not consider that the applicant's preference specified under clause 2(1)(ba) can be accommodated, the~~ The **Authority** must consult with the ~~an applicant before approving the application making a decision under subclause (1) if the~~ **Authority**—
- (a) ~~proposes to approve an application but does not consider that for a type of industrial co-generating station other than the applicant's preference specified in clause 2(1)(ba) can be accommodated; or~~
 - (b) ~~proposes to decline the application.~~
- (3) The **Authority** must, as soon as practicable after granting an approval, notify the granting of the approval, and conditions that apply to the approval, and the **Authority's** reasons for granting the approval ~~making a decision under subclause (1).~~—
- (a) ~~to the~~ advise the applicant, the **system operator**, the **grid owner**, and the **clearing manager** in writing; and
 - (b) ~~by notice in the Gazette.~~ **publicise** its decision, including—
 - (a) the reasons for its decision; and
 - (b) ~~in the case of an application that has been approved, any conditions that apply to an approved application have been imposed.~~

9 Decision must be recorded

- (1) The **Authority** must keep a register of all current approvals granted under this Schedule available for public inspection free of charge during normal office hours at the offices of the **Authority** and on the **Authority's** website at all reasonable times.
- (2) The register must state, for each approval ~~granted on the register,~~—
 - (a) ~~whether the applicant's generating units have been approved as a type A co-generating station or a type B co-generating station; and~~
 - (ab) the name of the **type A co-generator** or the **type B co-generator**; and **co-generator**;
 - (bc) the name of the **type A co-generator industrial co-generating station** or **type B industrial co-generating station**; and
 - (cd) the date of the approval; and
 - (de) the duration of the approval; and
 - (ef) ~~whether the nature of the approval, including~~ includes any conditions ~~and if so, a description of the conditions.~~

10 Effect of approval

Approval of ~~an~~ 1 or more **generating units** as a **type A industrial co-generating station** or a **type B industrial co-generating station** takes effect

from the date specified in the approval ~~(which may be no earlier than ten business days after the date of the Gazette notice of decision publicised by the Authority under clause 8(3)).~~

11 Authority may impose conditions

The **Authority** may impose conditions on any approval it grants. Such conditions may include 1 or more of the following:

- (a) requirements to assist the **system operator** in meeting the **PPOs**;
- (b) ~~requirements as to details of seasonal co-generation, including limitations on the being limited parts of the year during which when the approval applies~~ **generating units** are approved as **industrial co-generating stations**;
- (c) requiring requirements that ~~the a~~ **type A co-generator or type B co-generator must to** comply with specific instructions from the **system operator** during a **grid emergency or a system constraint that directly affects the type A co-generator or type B co-generator**.

~~12 Authority must provide reasons for declining approval~~

~~If the Authority declines an application it must provide its reasons for doing so to the applicant.~~

13 Authority may rescind or amend approval

- (1) If the **Authority** considers a change of circumstance has led to a situation in which the continuation of an approval would significantly adversely impact on the **system operator's** ability to meet the **PPOs**, it may amend or rescind the approval.
- (2) The **Authority** may, at the request of a **type A co-generator or type B co-generator**, amend an approval so as to change a **type A industrial co-generating station to a type B industrial co-generating station**, or vice versa.
- (3) The **Authority** must consult with the **system operator** before amending an approval in accordance with subclause (2).

14 Notice and reasons for rescinding or amending approval

If the **Authority** amends or rescinds an approval, it must—

- (a) give the **type A co-generator or type B co-generator** 3 months' notice of ~~before~~ rescinding or amending the approval; and
- (b) advise the **type A co-generator or type B co-generator** of the reasons for rescinding or amending the approval.

Changes to Part 17

17.129 Approval process for industrial co-generating stations

- (1) An application to the Board to be an industrial co-generating station in accordance with rule 3 of section I of part G of the rules that was not approved, declined, or rescinded immediately before this Code came into force, is deemed to be an application to the Authority to be an industrial co-generating station under clause 13.3 and must be continued and completed.
- (2) A generator approved as an industrial co-generating station by the Board under rule 3 of section I or schedule G9 of part G of the rules, whose approval had not been rescinded immediately before this Code came into force, is deemed to be a generator approved by the Authority as an industrial co-generating station under clause 13.3 and Schedule 13.4.
- (3) A notice issued by the Board of an amendment or rescission of an approval under rule 3 of section I or clause 14 of schedule G9 of part G of the rules immediately before this Code came into force, where the amendment or rescission is to take effect after this Code came into force, is deemed to be a notice issued by the Authority under clause 13.3 and clause 14 of Schedule 13.4.

17.129A Transitional provisions for co-generators

An approval granted by the Authority or deemed to have been granted under Schedule 13.4 and in effect immediately before 27 May 2015 is deemed to be an approval granted by the Authority under clause 8(1)(a)(i) of Schedule 13.4 of 1 or more generating units as a type A industrial co-generating station.