

# Replacement of the security of supply forecasting and information policy

---

## Decision and summary of submissions

18 April 2023

## Executive summary

The Electricity Authority (Authority) has decided to replace the security of supply forecasting and information policy (SOSFIP) in its entirety with the draft SOSFIP proposed by the system operator.

The Authority declined to approve the draft originally submitted in August 2022 and consulted on changes it would like. The Authority received two submissions and the system operator's cross submission. The Authority has considered the submissions and has made further changes as a result of submissions. The Authority advised the system operator in February 2023 of the final changes it would like to the original draft SOSFIP.

The system operator revised its draft SOSFIP and presented it to the Authority in March 2023 for approval.

The Authority approved the replacement SOSFIP and it will come into effect 1 June 2023.

# Contents

Executive summary	ii
1 Decision	4
2 The Authority's consultation	4
The system operator submitted a draft SOSFIP following consultation	4
The system operator's summary of submissions on the draft SOSFIP	4
The system operator proposed changes to the SOSFIP	4
The Authority wanted changes to the system operator's draft SOSFIP	5
The Authority received three submissions	5
3 Summary of submissions to the Authority's consultation and the Authority's response	6
Question 1 – the Authority's proposal on electricity demand response	6
Question 2– the Authority's proposal on receiving confidential information	6
4 Other comments made by submitters	7
Obligations on participants to provide information to the system operator	7
Inclusion of a section describing the intent of the SOSFIP	7
Other comments	8
5 The proposed changes are approved because they promote the Authority's main statutory objective	8
The draft SOSFIP meets the requirements of the Code	8
The Authority may approve the draft SOSFIP	8

# 1 Decision

- 1.1 On 13 April 2023, the Authority decided to replace the security of supply forecasting and information policy (SOSFIP) in its entirety with the draft SOSFIP proposed by the system operator.
- 1.2 The system operator's draft was originally submitted to the Authority in August 2022. The Authority declined to approve the initial draft and consulted on changes it would like. The results of that consultation were advised to the system operator in February 2023. The system operator revised its draft SOSFIP and presented it to the Authority for approval in March 2023.
- 1.3 The Authority approved the replacement SOSFIP and it will come into effect 1 June 2023

# 2 The Authority's consultation

- 2.1 The SOSFIP plays a key role in the set of Code provisions, contracts and other arrangements that collectively deliver common quality, power system stability and security, and orderly system operation.
- 2.2 The SOSFIP is prepared by the system operator and incorporated by reference into the Electricity Industry Participation Code 2010 (Code) by the Authority in accordance with section 131B of the Electricity Industry Act 2010 (Act), section 64 of the Legislation Act 2019 and clause 7.4 of the Code.
- 2.3 The current SOSFIP came into effect on 1 November 2018

## **The system operator submitted a draft SOSFIP following consultation**

- 2.4 Before submitting the draft SOSFIP to the Authority, the system operator sought comment from participants on its proposals to change the SOSFIP. The consultation was published in April 2022 and was a joint consultation with change proposals for the emergency management policy (EMP).
- 2.5 The system operator received 10 submissions. It considered the submissions and provided the submissions to the Authority (as required by clause 7.5(3) and (4)).
- 2.6 The system operator also took the opportunity to propose a number of relatively minor changes to remove duplication and aid clarity.

## **The system operator's summary of submissions on the draft SOSFIP**

- 2.7 The system operator has summarised the submissions from the consultation relating to the draft SOSFIP. The system operator's summary is on the Authority's website: <https://www.ea.govt.nz/documents/2089/Appendix-SOSFIP-and-EMP-Review-Summary-and-Recommendation1389156.1.pdf>

## **The system operator proposed changes to the SOSFIP**

- 2.8 The system operator provided a draft SOSFIP to the Authority on 23 August 2022. This resulted from the recommendations made by the Authority and the MartinJenkins report into the 2021 dry year event. The system operator consulted with interested parties, in accordance with clause 7.5(3) of the Code.

- 2.9 The system operator proposed updates to the SOSFIP to reduce uncertainty and subjectivity, in particular:
- (a) potential updates in assumptions around gas reallocation used to inform the electricity risk curves (ERCs) to better reflect prevailing conditions in the gas and electricity market (three options were included in the consultation)
  - (b) reviewing the assumptions used to determine electricity demand response in the ERCs
  - (c) clarifying that medium demand forecast be used in determining the ERCs
  - (d) simplifying reporting by removing the current watch and alert curves but retaining the percentage risk curves
  - (e) encouraging proactive information disclosure to the system operator.
- 2.10 The system operator also took the opportunity to propose a number of relatively minor changes to remove duplication and aid clarity.

**The Authority wanted changes to the system operator’s draft SOSFIP**

- 2.11 Most of the changes proposed to the SOSFIP aligned with the Authority’s and MartinJenkins’ recommendations, however there were two areas that did not.
- (a) The Authority regards the system operator as the experts in assessing how demand reacts to price and other power system requirements. The Authority wanted the system operator to apply its judgement to the assessment of electricity demand response (ie. distributed energy resources (DER) or industrial demand reduction) when calculating the electricity risk curves. The system operator proposed demand response only be included if it is likely to respond in the short-term or there is a known contract for the DER. The Authority believed this approach would underestimate the amount of demand response available leading to higher electricity risk curves and increased cost for consumers.
  - (b) The SOSFIP should explicitly state information that is given to the system operator to support the electricity risk curves assumptions will be made available to the Authority. This is so the Authority can assure itself and the industry that the risk curves are based on valid assumptions. The inability to do this in 2021 directly led to industry uncertainty, reduced confidence, and the letters (issued under section 46 of the Act) to the system operator and participants formally requiring that information. The current confidentiality provision requires the Authority to change the Code or to continue to issue requests under section 46 of the Act to access this information.
- 2.12 As required by clause 7.5(6) of the Code, the Authority consulted on the two proposed changes. The consultation closed 22 November 2022.

**The Authority received three submissions**

2.13 The Authority received submissions from the following:

Meridian Energy Limited	Generator, Retailer
Nova Energy Limited	Generator, Retailer

System operator	Cross submission on matters raised by the above submitters
-----------------	--

- 2.14 In addition to submitting on the specific changes the Authority requested, one submitter made some additional comments on the text of the draft SOSFIP and its alignment to the system operator’s consultation document released in April 2022.
- 2.15 The Authority provided the submissions to the system operator as required by clause 7.5(8) of the Code. The system operator provided a cross-submission on matters raised by submitters.
- 2.16 The system operator broadly agreed with the submitter’s points and agreed to either make changes, or note the matters for the next SOSFIP review, as appropriate.

### 3 Summary of submissions to the Authority’s consultation and the Authority’s response

#### **Question 1 – the Authority’s proposal on electricity demand response**

- 3.1 The Authority asked: Do you agree with the Authority’s proposal that the system operator should use its experience and judgement to assess electricity demand response? If not, please state why?
- 3.2 Both submitters supported the Authority’s proposal.
- 3.3 One submitter also suggested the system operator publish scenario analysis as a useful way of assessing the impact of different amounts of demand response and to reinforce the fact the ERCs are a forecast model and as such, are inherently uncertain. Although the Authority agrees that the ERCs are an inherently uncertain model, they use the best information available to the system operator, a significant amount of data from historical records, and the skill, experience, and judgement of the system operator. The Authority has passed these comments onto the system operator for it to decide how best to ensure the users are aware of the potential uncertainty of the model’s outputs.

#### **Question 2– the Authority’s proposal on receiving confidential information**

- 3.4 Do you agree the system operator should be able to pass information onto the Authority for the purpose of monitoring and assuring stakeholders the ERCs are reasonable? If not, why?
- 3.5 One submitter supported the Authority’s proposal. One submitter disagrees with the proposal. This submitter had two separate issues with the proposal.
  - (a) The submitter questioned the need for the change given the ability for the Authority to use section 46 of the Act to compel the system operator to give the information. Although section 46 of the Act does confer powers to compel information, the Authority considers including this provision explicitly in the SOSFIP has several advantages:
    - (i) it ensures participants are aware this information can be passed to the Authority
    - (ii) it is administratively more efficient to make the request

- (iii) it explicitly obliges the Authority to keep the information confidential, and only use the information for monitoring and assurance purposes
  - (b) the submitter noted its discomfort with the last sentence of the proposed provision allowing the Authority to "... make confidential information available in such a way the subject of the confidential information cannot reasonably be ascertained". The Authority notes that this wording is the same as the provision for the system operator in paragraph 3.1 of the current SOSFIP.
- 3.6 The Authority's intention is to use the information only for monitoring the performance and assuring key stakeholders, industry, and the public that the ERCs are based on valid assumptions. As such, the Authority has decided to remove the last sentence from the proposed new provision (paragraph 3.3 of the SOSFIP).

## 4 Other comments made by submitters

### **Obligations on participants to provide information to the system operator**

- 4.1 One submitter raised the issue of the new provisions defining 'electricity risk curve disclosure information' and placing obligations on participants to proactively provide this information to the system operator.
- 4.2 The submitter raised two issues:
  - (a) the obligation itself is much stronger than "encouraging proactive information disclosure to the system operator" described in paragraph 35 of the system operator's consultation document, and as the suggested wording was not included in the system operator's SOSFIP consultation, submitters at the time did not have the opportunity to make relevant comments
  - (b) the SOSFIP is a document described in the Code as including requirements on the system operator, therefore the SOSFIP should not include substantive requirements on other participants.
- 4.3 The Authority agrees with the submitter and has decided to change the obligation into a strong expectation.
- 4.4 The Authority notes the recommendation from the MartinJenkins independent review on the 2021 dry year event to include proactive information disclosure to add certainty and transparency to the security of supply regime and will monitor the effectiveness of the information disclosure expectation. If the system operator has difficulty receiving the information needed to ensure the ERCs are accurate, the Authority will consider if a mandatory information disclosure is needed and if so, use the Code amendment process, giving all participants opportunity to comment.

### **Inclusion of a section describing the intent of the SOSFIP**

- 4.5 One submitter raised the inclusion of a new section on the intent of the SOSFIP. Creating this section was not described in the system operator's consultation document but was added after to aid clarity. As the actual text of the SOSFIP wording was not included in the consultation, submitters at the time did not have the opportunity to make relevant comments.
- 4.6 The Authority agrees with the submitter and has decided not to include this section.

### **Other comments**

- 4.7 One submitter made comments on the contingent storage release boundaries, and additional scenarios for a range of gas reallocation assumptions. The Authority has noted these comments and has passed them to the system operator to include in the next review of the SOSFIP.

## **5 The proposed changes are approved because they promote the Authority's main statutory objective**

### ***Net gains in efficiency, and no material effects on reliability and competition, are expected***

- 5.1 The Authority has decided to approve the draft SOSFIP (**Error! Reference source not found.**), under clause 7.5(11) of the Code, because this will promote its main statutory objective.
- 5.2 The proposed changes to the SOSFIP are expected to yield efficiency benefits through increased transparency of the assumptions underpinning the ERC calculations, increased confidence in the ERCs, and wholesale electricity pricing that more accurately reflects the actual risk of shortage, while not incurring material efficiency losses. Hence the expected net effect on efficiency is positive.
- 5.3 The proposed changes are not expected to have a material effect on reliability or competition.
- 5.4 Clarifying and simplifying the SOSFIP and making it more consistent with current practice and the MartinJenkins report recommendations will provide greater certainty to participants the forecasting and information provided by the system operator more accurately reflects the actual situation. This is expected to yield a small positive effect on productive efficiency.

### **The draft SOSFIP meets the requirements of the Code**

- 5.5 The Authority is satisfied the draft EMP meets the requirements of clause 7.3(1) of the Code.

### **The Authority may approve the draft SOSFIP**

- 5.6 Under clause 7.5(11) of the Code, the Authority may approve or decline the draft SOSFIP submitted by the system operator subject to the changes that the Authority considers appropriate being made by the system operator. The Authority is satisfied those changes have been made.
- 5.7 The Code does not explicitly set out any matters that the Authority must consider in deciding whether to approve the draft SOSFIP. The Authority is therefore guided by its main statutory objective, which is “to promote competition in, reliable supply by, and the efficient operation of the electricity industry for the long-term benefit of consumers”.<sup>1</sup>

---

<sup>1</sup> Section 15(1) of the Electricity Industry Act 2010.



## Appendix A – SOSFIP, effective 1 June 2023