

15 November 2022

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**Re: Winter Peak Ancillary Services Product to maintain security standards**

Dear Sarah,

We wish to follow up from our letter of 28 October, our addendum of 4 November and the discussion at the CEO forum of 11 November. We appreciate the Chair and General Manager Market Policy joining us to explain the course the Authority board decided to take at its 9 November board meeting.

The work we have commissioned and the work you have now set in motion both have the same overall objectives. We both wish to reduce the risk of blackouts in winter 2023 and winters thereafter. We also both seek to ensure that any changes to market arrangements or ancillary services are made in the public interest i.e. the long term interests of consumers.

We are relying on the **Investigation into electricity supply interruptions of 9 August 2021** (the Hodgson report), the **Security of Supply Assessment of 2022 (SOSA)**, Transpower's **Weekly Market Movements - Week Ended 16 October 2022** discussion on peak demand growth and the **System Operator Winter Review Paper** (released 10 November). In our view the problem definition is:

- The current suite of market mechanisms and ancillary services may not adequately deliver the security standard from winter 2023 as a result of higher peaks, more frequent high peaks, real time load volatility and increasing intermittent generation.
- The market currently has no mechanism to deal with the unit commitment problem. RTP will deal with one element of the uncertainty but commitment decisions will still be made ex ante based on forecast prices. The dispatch notification rules won't provide the certainty required to maintain system security on peaks either.
- There is no ancillary service product available to manage multi-hour shortfalls. (As noted in the Hodgson report).
- There is a case for the introduction of a new ancillary service, that provides multi hour firm response into winter peaks to avoid shortfalls, before winter 2023.

The System Operator's (SO) analysis shows that the system is being run closer to shortfall each year and the risk of emergency conditions emerging has risen. We remain of the view that the need to address system security, notably the risk to the North Island Winter Capacity Margin, is urgent.

The sequence of System Operator notifications in security situations is to issue Customer Advice notices (CANs), Warning Notices (WRNs) and Generation Emergency Notices (GENs). Each is based on the System Operator's view of whether the system will maintain 200MW of residual generation once expected demand is taken into account. When CANs and WRNs are issued the System Operator actively encourages participants to review their bids and offers. We accept their analysis that the incidence of issuing low-residual CANs has increased and that load and wind output can easily swing 200MW without warning.

We remain of the view that the risk of escalating to GENs and possible blackouts will not be addressed in the short term by current market mechanisms.

The SO needs a tool it can reach for and rely on when the projected residual is less than 200 MW, and/or a CAN (or WRN) has been issued and there is no prospect of further response. To maintain security the tool has to be in the style of an ancillary service product, not a market mechanism. By that we mean the tool has to be a firm physical mechanism available for the common good not a bilateral financial market mechanism.

We have worked on the design of a winter peak ancillary service product that addresses the problem and is able to be implemented by winter 2023 provided the necessary Code change is in place in time for the System Operator to get everything in place. They need time to publicise and run the ancillary service auction and then sign contracts with providers of the product as well as developing systems and training staff. The System Operator is working on a plan to implement a winter peak ancillary service product by May 2023. To assist in expediting the process we have commissioned legal drafters to develop an urgent Code amendment for the Authority and its legal team to review. In our view the solution we are working on will address the problem and will be able to be implemented by winter 2023. However, for this solution to be implemented would require an urgent Code change.<sup>1</sup>

We ask that the Authority board proceed with our solution via an urgent Code change. We request the Authority board make a decision whether or not to proceed with an urgent Code change on or before the Authority's 13 December board meeting. Should you decide to not go down that path we will still submit our proposal for the Authority's consideration. We are concerned that without an urgent Code change a winter peak ancillary service product will not be in place prior to winter 2023. Should you decide to proceed with an urgent Code change we will work closely with you and press on with the implementation of the winter peak ancillary service product we are working on with the aim of it being available in time for winter 2023.

We note that an urgent Code change expires after 9 months and during that period work can proceed with an enduring Code change. If we proceed with an urgent Code change the process of developing an enduring solution would benefit from the work done in the meantime and its actual operation through winter 2023.


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<sup>1</sup> As per the Electricity Industry Act 2010 s 40 (1)

Yours sincerely



David Prentice  
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Manawa Energy



Alison Andrew  
Chief Executive  
Transpower



Vince Hawksworth  
Chief Executive  
Mercury



Neal Barclay  
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James Kilty  
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