Security and Reliability Council

Update on system operator performance alignment review

Phase One

29 August 2012

Information only

Note: This paper has been prepared for the purpose of SRC discussions. Content should not be interpreted as representing the views or policy of the Electricity Authority.

1 What is the system operator performance alignment review?

1.1 At its 2 December 2011 meeting the SRC considered a paper discussing potential enhancements to the system operator performance assessment process, including the development of a set of consistent performance measures that capture the full range of system operator functions. The SRC asked the secretariat to continue to work with the system operator on developing these measures, and advised the Authority Board of its interest in this matter.

1.2 Having received the SRC's advice on system operator performance, together with other related advice from Authority staff, the Authority Board requested Authority staff undertake a more fundamental review of the system operator's performance objectives. The intention of this review is to ensure that the objectives and functions of the system operator in the Code and in the System Operator Service Provider (SOSPA) contract are consistent with the Authority's statutory objective (alignment review). It is expected this alignment review will lead on to the development of a set of appropriate performance measures for the system operator.

1.3 The Authority Board approved a draft Terms of Reference for the alignment review at its 6 June meeting. The draft project plan proposed that the alignment review be undertaken in three phases. The focus of Phase One of the alignment review is to develop a package of recommendations for the Authority Board. Phase Two will consider and refine these recommendations and Phase Three will be implementation.

1.4 The Authority Board considers the efficiency of the alignment review project and the quality of the outcomes will be significantly enhanced if the work is undertaken jointly by a project team consisting of Authority and system operator staff. Initial discussions have been held with the system operator on the project and project structure and work now is underway to establish resourcing.

1.5 Future updates will be provided to SRC on the progress of the alignment review, and there may also be opportunities for the SRC to provide comments and input as the project develops.

1.6 Key elements from the approved Terms of Reference are provided below under the relevant section headings.

2 There are a range of drivers for the alignment review

2.1 To date a number of issues have emerged that have influenced the need for, and scope of, this alignment review. These include:

a) concern that the principle performance obligations (PPOs) encourage the system operator to focus solely on security outcomes, and this may not be for the long term benefit of consumers;

b) concerns that the system operator's use of its discretion in its operational decision making have not appropriately recognised the economic impacts of those decisions;

c) questions raised in the course of a compliance investigation process about the actual scope of the reasonable and prudent operator (RPO) expectation;

d) discussion at the Board and in the Security and Reliability Council (SRC) about the establishment of performance measures for the system operator that reflect the full scope of its activities and not just the achievement of the PPO's;

e) concerns about the prolonged timeframes for the delivery of the system operator elements of the Authority's market development initiatives (and the section 42 projects in particular) and the perceived poor track record of the on time and budget delivery of the capital plan; and

f) the implications of the system operator's capital plan on the Authority's funding and appropriations process.

3 Expected project outcomes and deliverables

3.1 The following outcomes are expected from the alignment review project:

a) objectives of the system operator are closely aligned with the Authority's statutory objective;

b) performance standards and measures are in place that facilitate the system operator meeting the Authority's expectations;

c) reporting and monitoring processes are in place to ensure transparency and to track system operator performance issues as they arise;

d) an open and co-operative system operator/Authority relationship exists that enables both parties to fulfil their respective duties;

e) contractual (i.e. SOSPA) and regulatory (i.e. Code) arrangements are in place that support the system operator meeting its objectives and performing its functions to the agreed standard; and

f) clarity and consistency of role and functions of the system operator under the Code and SOSPA.

3.2 To deliver the outcomes listed, it is anticipated that the key deliverables from the alignment review process will be a package including:

a) renegotiated SOSPA terms;

b) agreed performance measures;

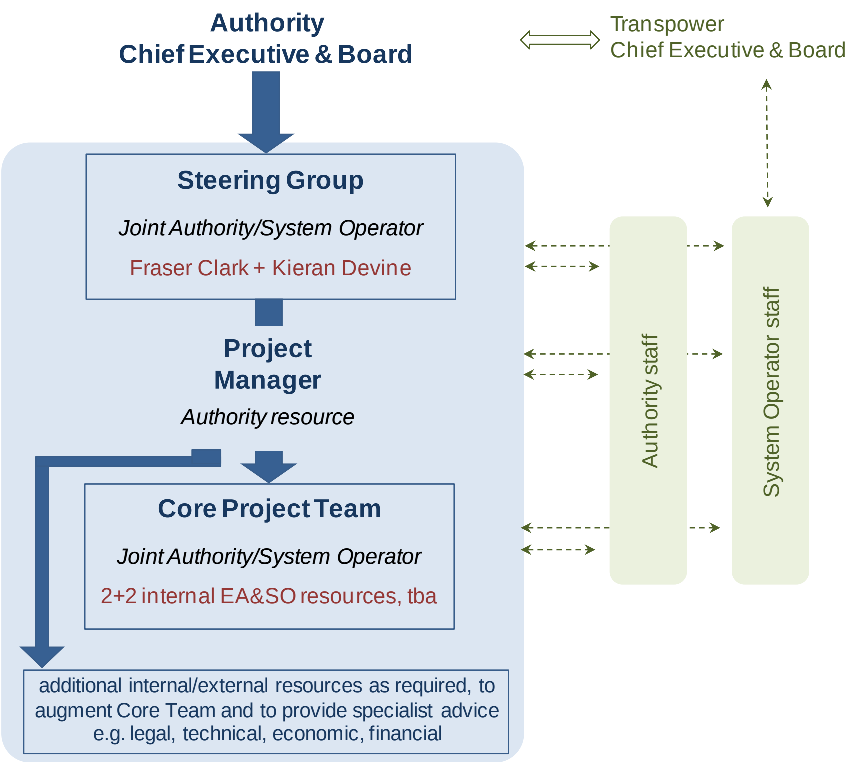
c) proposed Code amendments; and

d) Authority SOSPA management policies and procedures for monitoring, reporting, join work planning etc.

4 Project structure and resourcing

4.1 The Authority considers that the efficiency of the alignment review project and the quality of the outcomes will be significantly enhanced if the work is undertaken jointly by a project team consisting of Authority and system operator staff. A joint Steering Group consisting of a senior executive from each of the Authority and system operator will ensure that the project meets its Terms of Reference and enable any issues to be resolved in a timely and appropriate manner.

4.2 Accordingly, the Authority in discussion with the system operator has established the following structure for the alignment review:



5 Project timetable (under review)

5.1 The following timetable was prepared for the completion of Phase One which recognised the importance of this project, but also the extent of work involved. Some tasks can be undertaken in parallel, subject to resourcing availability. The timetable is to be reviewed and updated following discussions with the system operator and the approval of the project plan.

Phase One timetable (* indicates this tasks may be progressed in parallel)

Key project task	Target timeframe (under review)
Review the scope and nature of the current system operator objectives and obligations (including the legal review of the RPO expectation)	(Was August 2012 but project establishment has been delayed)
Jointly undertake and investigate benchmarking metrics *	by July 2012 (not yet commenced due to establishment delays)
Identify amendments that would better align the system operator's objectives and obligations	TBD
Review the alignment of the system operator functional analysis	TBD
Review the implications of the existing capital expenditure arrangements*	TBD
Provide advice to the Authority on a package of arrangements	TBD (original target was December 2012)

6 Project governance

6.1 As this is an Authority initiative, it is important that the formal accountability is based around the Steering Group reporting to the Authority Chief Executive and Board. However, it is envisaged that the project team and steering group members will liaise with staff in the Authority and system operator in the normal course of undertaking the project, and that system operator staff will keep the Transpower Chief Executive and Board appraised of progress.

6.2 The Project Manager will develop a detailed project plan for the completion of Phase One of the project. The plan is to include details of tasks, deliverables, resources, timetable and budget, for the approval of the Authority's GM Operations Development.

6.3 The Project Manager is required to report every two months to the steering group with progress on the alignment review project relative to the approved project plan. Progress reports should track expenditure relative to budget and should also highlight matters such as key issues to be resolved, project risks identified or resourcing constraints.

6.4 The key deliverable is a package of arrangements for recommending to the Authority Board. The Steering Group will consider the draft recommendation to the Authority, and finalise the package in liaison with the Project Manager and project team.