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6 September 2013

Electricity Authority  
P O Box 10041  
WELLINGTON

Dear Callum

## SYSTEM OPERATOR CROSS SUBMISSION ON DRAFT PROCUREMENT PLAN 2013/14

This letter constitutes the System Operator's cross-submission on the 2013/14 draft procurement plan and the submissions received in relation to it.

The Electricity Authority forwarded us five submissions that it received from participants in respect of the 2013/14 draft procurement plan (from EnerNOC, Major Electricity Users Group, Meridian Energy, Pacific Aluminium and TrustPower). We have reviewed those submissions and our responses are set out in the table attached as appendix A.

From the submissions it appears that some participants are not clear on the purpose of back-up SFK. The System Operator has indicated through the Policy Statement that it must use the services of a frequency keeper. The introduction of MFK has introduced a new common point of failure, which sits with the System Operator. To ensure that it has redundancy in the event of a failure of the MFK tools the System Operator will maintain the use of back-up SFK. This is not to say that we do not have confidence in the tools but it is consistent with our approach to other system tools.

This requirement for Back-up SFK will be contracted on a short term basis and will be regularly reviewed and if an alternative means of redundancy becomes available the System Operator would reconsider its position on Back-up SFK.

After reviewing the submissions, we have reached the view that there has not been any new information provided that would lead us to change our position on the issues that were raised by participants during the System Operator's earlier consultation process.


However several clarifications and wording changes have been proposed. These amendments are as follows:

- C24 is redrafted to read '*The **ancillary service agent** must pay the its costs of any **baseline test**.*'

- Clarification redrafting to the definition of Back-up SFK to read '**Back-up SFK** means **single provider frequency keeping** that is procured during the annual tender round against the risk of technical failure of **multiple provider frequency keeping**'
- Appendix D redraft part (b) of the definition of an MFK period to read '(b) ending at the start of the first **SFK return trading period** following an ~~immediate after the~~ **MFK transition trading period**.'

Please contact me if you have any questions regarding this submission.

Yours sincerely

A handwritten signature in dark ink, appearing to be 'SA', with a long horizontal flourish extending to the right.

Scott Avery  
**Compliance Manager**  
**System Operations**

## Appendix A - Summary of Submissions Received by the Electricity Authority and System Operator's Response to Those Submissions

Submitter	Summary of submission	Clause	Submitter's suggested wording	System Operator Response
EnerNOC	EnerNOC proposed and continues to support changes in the procurement plan that remove technology specific references from the frequency keeping provisions.		n/a	Noted
Major Electricity Users Group	MEUG supports the proposed amendments apart from two aspects: <ul style="list-style-type: none"> <li>MEUG cannot accept the Authority's estimate of \$10,000 per site for availability of back-up SFK without evidence of how the estimate was derived.</li> <li>Policy issues need to be resolved before the Authority agrees to process for procurement of back-up SFK: <ul style="list-style-type: none"> <li>Who pays the availability charge for back-up SFK?</li> <li>Who pays for back-up SFK when dispatched in an event MFK fails</li> </ul> </li> </ul>		n/a	<p>The figure of \$10,000 per site for availability of back-up SFK (per annum) is based on an estimate of the costs of providers of back-up SFK and on an assumption that the market for back-up SFK will be competitive. Until tenders have been received neither the SO or the Authority will be able to make an accurate assessment of the costs of providing back-up SFK.</p> <p>Back-up SFK availability charges and actual dispatch costs are part of the overall service of frequency keeping and therefore covered by existing frequency keeping arrangements whereby purchasers pay.</p> <p>If MEUG wishes to pursue other possible approaches to the question of who pays for back-up SFK this should be done through a Code amendment (Allocating ancillary service costs, Part 8 of the Code).</p>
Meridian	Meridian supports the intent of the changes but submits there are some points needing to be addressed before the Authority accepts the procurement plan: <ul style="list-style-type: none"> <li>In the short term would like procurement of back-up SFK to be mandatory but once proven requirement to purchase back-up SFK could be revised (27).</li> <li>Settlement of back-up SFK.</li> <li>Term 'frequency keeping unit' is not defined.</li> <li>'Baseline tests' are poorly defined (C24). Costs fall entirely on the ancillary service agent which given the lack of definition is an open ended liability. Costs should be limited to direct costs only.</li> </ul>	25.2 27 A9 C24 B28 C24 Appendix D		<p><u>Back-up SFK should be mandatory</u> - System operator agrees that at least in the short to medium term while MFK is bedding down the procurement of back-up SFK is essential. The system operator is absolutely incentivised to ensure frequency keeping arrangements are robust and will not consider halting the procurement of back-up SFK.</p> <p><u>Settlement of back-up SFK</u> – Back-up SFK providers will submit their availability prices in their tenders. If back-up SFK is needed then the contracted providers will make half-hourly SFK offers. The provider who is dispatched based on those offers will be paid its offer (and will also receive its availability fee).</p> <p><u>Definition of frequency keeping unit</u> – Code amendment defining 'frequency keeping unit' was be gazetted on 5 September 2013 – <b><i>frequency keeping unit means any equipment that provides frequency keeping services.</i></b></p> <p><u>Baseline tests are not defined</u> – Agree that costs as defined are open ended. Suggest second sentence of C24 is redrafted to read '<b><i>The ancillary service agent must pay the its costs of any baseline test.</i></b>'</p>
Meridian	Drafting changes	25.2	25.2 ' <u>The half-hour clearing market procurement may will</u> include an availability price in addition to the offer price'	Not accepted. There is no need to force back-up SFK providers to tender an availability price (although they presumably will). Also, there will not be an availability price for the other ancillary services procured on a half-hour basis.
		27	27 'The System Operator <del>may</del> <u>will</u> procure <b>back-up SFK</b> , from one or more parties. However, it is not required to procure <b>back-up SFK</b> from all potential providers.'	Not accepted. The system operator is absolutely incentivised to ensure frequency keeping arrangements are robust and will not consider halting the procurement of back-up SFK. The need for back-up SFK would be reviewed as other alternative forms of redundancy become avliable options.
		A9	A9 'The <b>System Operator</b> may pay an availability price for <b>back-up SFK</b> but <del>must</del> <u>may</u> not otherwise pay an availability price for <b>frequency keeping</b> .'	Not accepted. As per response to clause 27. Presumably providers of back-up SFK (availability) will not provide the service unless they are paid for it. However, it is conceivable that MFK providers may structure their tender in such a way as to provide availability of back-up for free.
		B28	B28 'a <b>single provider frequency keeping</b> offer ( <u>other than an offer to provide back-up SFK</u> ) for a <b>trading period</b> that is in an <b>MFK period</b> ; or'	<p>Not accepted. A <b>single provider frequency</b> offer (i.e. a half hour offer) will only be made during an SFK trading period.</p> <p>Clarification – the following change to defition of <b>back-up SFK</b> may help.</p>

				<b>Back-up SFK</b> means <b>single provider frequency keeping</b> that is procured <u>during the annual tender round</u> against the risk of technical failure of <b>multiple provider frequency keeping</b>
		C24	C24 Amend second sentence to read ‘The <b>ancillary service agent</b> must pay the <u>direct</u> costs of any <b>baseline test</b> .’	Not accepted but recommend a change to:  C24 The <b>ancillary service agent</b> must pay <u>its</u> <del>the</del> costs of any <b>baseline test</b> .
		Appendix D	Appendix D ‘ <b>Frequency keeping unit</b> means one or more generating units or load sources used for frequency keeping.’	Covered by Code amendment - <b>frequency keeping unit</b> means any equipment that provides frequency keeping services.
		Appendix D	Appendix D Amend definition of an MFK period to read ‘ending at the start of the first <b>SFK return trading period</b> <del>immediate after the</del> <u>following an <b>MFK transition trading period</b></u> ’	Accept recommendation because it is shorter.  (b) ending at the start of the first <b>SFK return trading period</b> <u>following an</u> <del>immediate after the</del> <b>MFK transition trading period</b> .
Pacific Aluminium	General support for the amendments but as with MEUG Pacific Aluminium has concerns around the costs of back-up SFK. Would like to see some analysis of how the \$10,000 per site was arrived at and the expected gross reduction in frequency costs through MFK. Suggested that a sunset clause be included for back-up SFK.		n/a	System Operator is aware of the on-going cost issue and will be proactively monitoring whether back-up SFK is the appropriate means of redundancy for any MFK failure..
TrustPower	TrustPower fully supports the proposed approach but is keen to ensure that once there is confidence in MFK there will no longer be a need for back-up SFK and that the System Operator and the Authority should be proactively working towards a time when the only frequency keeping tool available is MFK.		n/a	Noted. As above the System Operator is aware of the on-going cost issue and will be proactively monitoring whether there is a continuing need for back-up SFK.

