

MINUTES

Meeting number: 25

Venue: Electricity Authority Boardroom

Time and date: 9:34 am until 11:44 am, Wednesday, 24 October 2018

Members Present

- Hon Heather Roy (Chair)
- Anne Herrington
- Greg Skelton
- Guy Waipara
- Marc England (by teleconference until 11:30 am)
- Nathan Strong
- Vince Hawksworth (until 11:38 am)

Apologies

- Barbara Elliston
- Bruce Turner

In attendance

Name	Title	Agenda item # attended
<u>Electricity Authority (Authority):</u>		
Rory Blundell	General Manager Market Performance	All
Grant Benvenuti	Manager Market Operations	All
Callum McLean	Senior Adviser Market Operations	All
Richard Harrow	Adviser Wholesale Markets	#8 (10:20 am – 11:10 am)
Brian Kirtlan	Principal Adviser Market Performance	#10 (11:38 am – 11.44 am)
<u>Transpower:</u>		
Bennet Tucker	Market Security Services Manager	#7-#10 (10:00 am – 11:44 am)
Leigh Westley	Market and Business Manager	#7-#10 (10:00 am – 11:44 am)
Lisa Tinkley	Senior Market Analyst – Trends	#7 (10.00 am – 10.20 am)
Sally Holloway	Grid & System Operations Manager	#10 (11:10 am – 11.37 am)
Tim Connolly	Operations Manager Security	#10 (11:10 am – 11.37 am)

Other:

None

The meeting opened at 9:34am

1. Attendance and apologies

- 1.1. The Chair welcomed members to the twenty-fifth meeting of the Security and Reliability Council (SRC).
- 1.2. The Chair noted that apologies were received from Barbara Elliston and Bruce Turner.
- 1.3. A quorum was established.

- 1.4. The Chair introduced herself to the members, providing a brief history of her previous work and personal background.

2. Changes to disclosure of interests

- 2.1. The Chair reviewed the latest interests register and approved members to act despite those declared interests.

3. Previous minutes

- 3.1. The minutes of the 22 June 2018 meeting were accepted as a true and accurate record.

Greg Skelton moved, Guy Waipara seconded.

4. Correspondence

- 4.1. The Chair gave an overview of the correspondence.
- 4.2. A letter was sent to previous Chair of the SRC, Mike Underhill, thanking him for his contribution to the SRC.
- 4.3. In relation to the SRC's 27 August 2018 advice to the Authority the secretariat noted that:
 - 4.3.1. the advice from the SRC was relatively extensive
 - 4.3.2. the Authority Chair has sought additional advice from Authority staff and Board members before responding
 - 4.3.3. the Authority's reply to the SRC's advice is expected in November.

5. Glossary and overview of meeting agenda

- 5.1. The members discussed the use of acronyms and agreed that the secretariat will use fewer acronyms in future SRC papers where possible.

6. Action list and updates

- 6.1. The group discussed the risk management framework.
 - 6.1.1. The newer members agreed to attend a bespoke briefing on the SRC's risk management framework
 - 6.1.2. A member noted past discussions have been focussed on pitching the framework at the right level and overly-focussed on the bowtie instrument itself
 - 6.1.3. Members agreed that the most consequential risk decisions for security and reliability happen around participants' Board tables
 - 6.1.4. Listed companies receive considerable scrutiny, with a focus on financial performance. The SRC can provide some oversight of security and reliability outcomes. This oversight is important to give confidence to stakeholders
 - 6.1.5. A member questioned whether Transpower presentations are getting analytical and Board-level attention within the Authority. Authority staff noted that the System Operations Committee of the Authority's Board regularly receive system operator presentations and monitor the system operator's performance, and the Committee format allows for discussion directly with system operator staff.

1. Action: Secretariat to organise a bespoke briefing on the SRC's risk management framework for the Chair, new members and any other members wishing to attend.

- 6.2. The members had a preliminary discussion about receiving more information on the effectiveness of the Commerce Commission's focus on distributors' asset management. The Chair undertook to revisit this when discussing agenda items for the next meeting (in agenda item #11).

7. System operator performance for year ending 30 June 2018

Leigh Westley, Lisa Tinkley and Bennet Tucker joined the meeting

- 7.1. A member noted the system operator's self-review was an accessible, clear read. Nonetheless, it would be better to have some distillation of key insights that will shape future system operator work. Other members agreed, challenging the system operator to focus on how to improve from lessons learned.
- 7.2. Members discussed the low response rate to the system operator's annual customer survey.
- 7.2.1. Low response rates can be consistent with (but are not evidence of) customer satisfaction, so are not necessarily a bad thing. However, the system operator should look at ways of gaining better engagement in the customer survey to gain better feedback.
- 7.2.2. The system operator and the Authority should be careful not to let the focus on response rate overshadow the indicators of actual performance.
- 7.2.3. The small percentage is a function of treating the list of all participants as the pool of potential survey respondents.
- 7.2.4. A member suggested the system operator may get better value out of direct engagement with customers. The system operator noted plans to use a focus group as part of the next customer survey.
- 7.3. A member asked what further reporting is planned in relation to the 2 March 2017 South Island event. A system operator responded that Transpower publishes its action list on its website.
- 7.4. The SRC concluded:
- 7.4.1. The Authority's third recommendation should aim to get better engagement in the customer survey and also focus on better ways of engaging with customers to gain qualitative feedback.
- 7.4.2. The system operator should aim to have future self-reviews identify what it will do differently as a result of insights from the self-review.

Lisa Tinkley left the meeting, Richard Harrow joined the meeting

8. Official conservation campaign regulatory settings review

- 8.1. Representatives from Transpower and the Authority provided an overview of the projects and associated timing.
- 8.2. The members discussed:
- 8.2.1. the underlying purpose of the hydro risk curves

- 8.2.2. potential alternative options for how to handle contingent hydro storage
- 8.2.3. the way that thermal fuels are accounted for and how this affects the estimation of actual risk to security of supply
- 8.2.4. that the hydro risk curves and the threat of a compensating customers during an official conservation campaign can be of:
 - 8.2.4.1. minor significance to some large gentailers
 - 8.2.4.2. significant concern to small retailers
- 8.2.5. less well-resourced stakeholders rely on the hydro risk curves and will take them at face value as an estimation of risk despite the complexity and assumptions inherent in the hydro risk curves.
- 8.3. The SRC concluded:
 - 8.3.1. This is a complex topic that needs thorough explanation to get meaningful feedback from stakeholders.
 - 8.3.2. The prospect of project implementation in late-April was not obviously alarming, but that it is vital to ask stakeholders through formal consultation for their views on this.
 - 8.3.3. There are circumstances in which a South Island-only official conservation campaign would be warranted (such as major HVDC limitations), but that there are substantial risks if a South Island-only campaign couldn't be explained to the satisfaction of the public.

9. Coordination of critical gas contingencies with the electricity system operator

Sally Holloway and Tim Connolly joined the meeting

- 9.1. System operator representatives introduced the paper. Some points highlighted were:
 - 9.1.1. gas supply is not a traditional area of core competence for the system operator, but they are rapidly upskilling
 - 9.1.2. the system operator is confident it gets thorough, prompt information sharing from the gas critical contingency operator, but much less confident that the gas critical contingency operator is kept well informed by the gas industry.
- 9.2. The members discussed their own experiences with the gas industry and agreed:
 - 9.2.1. the gas industry is much less transparent than the electricity industry (in the context of security and reliability matters)
 - 9.2.2. the lesser transparency of the gas industry constitutes a blind spot for the electricity industry's ability to efficiently manage risks to security of supply
- 9.3. The SRC:
 - 9.3.1. concluded that the secretariat should provide the SRC more information about how gas production outage risks are managed
 - 9.3.2. reiterated an existing action requesting information about the coincidence of hydro and non-hydro fuel shortages

- 9.3.3. agreed to provide advice to the Authority about the electricity industry's blind spot to poor information transparency from the gas industry.

2. Action: Secretariat to provide more information about how gas production outage risks are managed.

10. Update on the current situation in the wholesale gas and electricity markets

- 10.1. Subsequent to sending SRC papers to the members, the secretariat requested that the system operator prepare to brief the SRC on the current situation in the wholesale electricity market. As such, the system operator tabled a short series of slides (annex 1 to these minutes) and led a discussion that was not on the agenda.
- 10.2. Members discussed the role of thermal fuels in the electricity industry's ability to provide security of supply. A system operator representative explained why it has not, at that time, changed any of its assumptions about constraints to thermal fuels in the hydro risk curves. Several members encouraged the system operator to dig deeper to ensure its assumptions are accurate.

11. High-level electricity implication of climate change

Sally Holloway, Tim Connolly, Marc England and Vince Hawksworth left the meeting, Brian Kirtlan joined the meeting

- 11.1. Members expressed pleasant surprise that, according to the paper, the general tendency of climate change is slightly positive on security of supply in the electricity sector.
- 11.2. Members questioned the secretariat about how certain the paper's advice is. The secretariat:
- 11.2.1. was unable to provide any greater certainty than the broad disclaimers already in the paper
 - 11.2.2. provided references for better-qualified individuals that may be able to assist.

Leigh Westley and Bennet Tucker left the meeting

12. Future schedule of SRC meetings and likely papers

- 12.1. The members discussed distributors' asset management and agreed to request to hear from the Commerce Commission again at the SRC's second meeting of 2019.

3. Action: Secretariat to request the Commerce Commission to attend the SRC's second meeting of 2019 to provide a refresher and update on the asset management of distributors.

The meeting ended at 11:48 am

Annexure 1: October 2018 Security of Supply Situation, tabled by the system operator

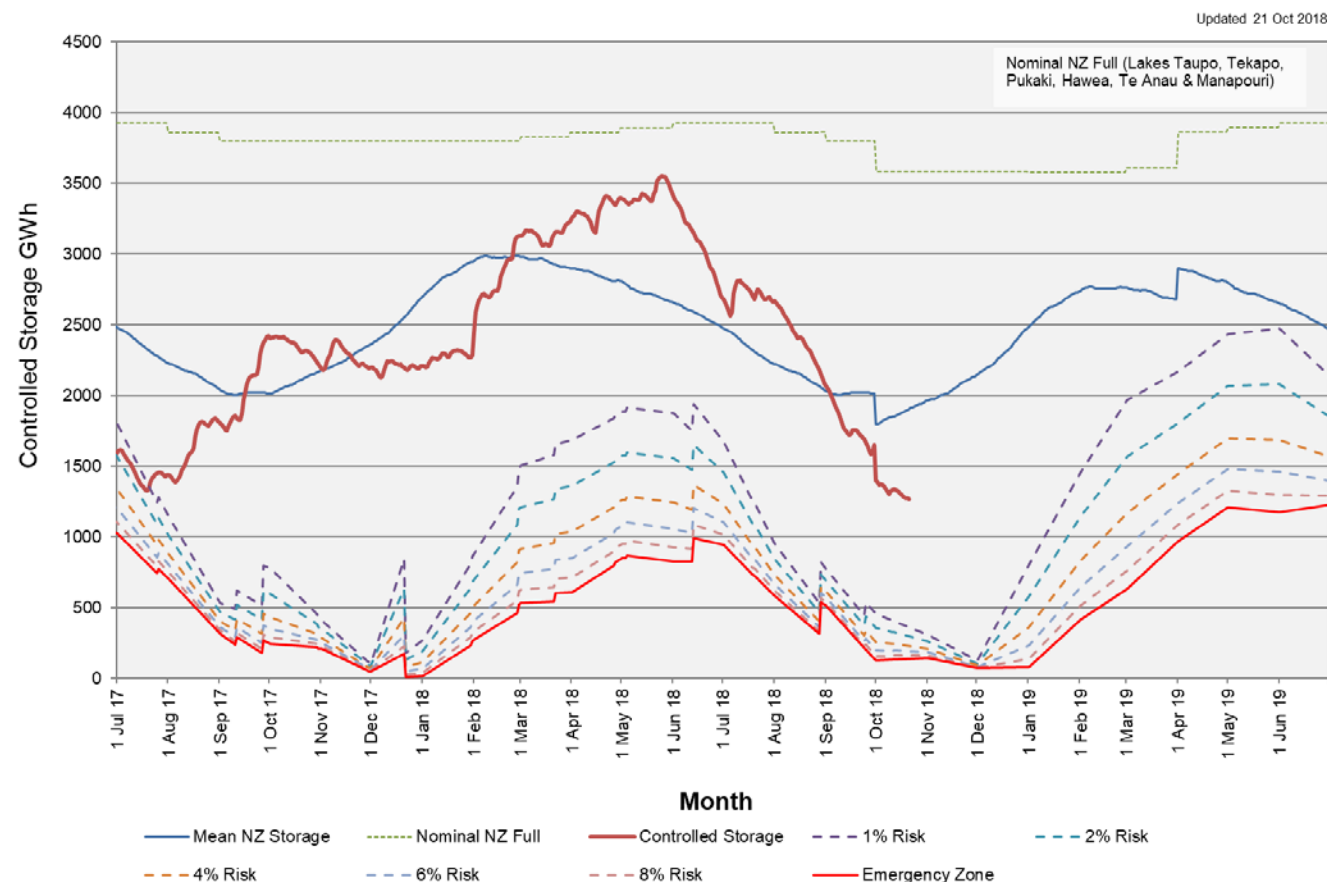
October 2018 Security of Supply Situation



Situation

- Pohokura outage, compounded by limitations on other gas supplies
- Poor inflows during September and October
- Currently the risk is very low

NZ Controlled Storage and Risk Curve



Our assumptions

- We believe there would be sufficient thermal fuel (coal and gas) available to support 100% thermal operation from in-service thermal generators during a security of supply emergency situation
- This is consistent with our HRC input assumptions. We believe there has been, and will be, sufficient market response. Examples of observed response below:
 - Participants are acting on high prices and utilising (and securing additional) alternative fuel sources (Huntly Rankines, gas storage, etc.)
 - Methanex has shut off the Waitara Valley methanol production facility

Outlook



- Due to uncertainty the industry is on high alert
 - How long will the gas outage take to repair?
 - Are non-Pohokura fuel supplies enough?
 - How will major gas users react to the shortage?
Will more gas be made available for electricity generation?
 - How much will we get from snow melt and spring inflows?