

21 November 2018

Dr Brent Layton  
Chair  
Electricity Authority  
PO Box 10041  
Wellington 6143

Dear Brent

### Advice resulting from the 24 October 2018 meeting of the SRC

The Security and Reliability Council (SRC) is tasked with providing the Electricity Authority (Authority) with independent advice on the performance of the electricity system and the system operator, and reliability of supply issues.

The SRC considered and discussed four different papers at its 24 October 2018 meeting. This letter is the SRC's advice arising from all of those papers.

#### Performance of the system operator for the year ending 30 June 2018

In relation to the performance of the system operator for the year ending 30 June 2018, the SRC received the system operator's annual self-review and the Authority's draft executive summary of its annual review.

The SRC's advice to the Authority is:

- 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
- the Authority should amend the recommendation in its annual review about the system operator's customer surveys to focus on improvement of the *quality* of responses.

#### Review of regulatory settings for official conservation campaigns

The SRC received presentations on two inter-dependent security of supply projects:

- the Authority's review of regulatory settings for official conservation campaigns
- the system operator's review of the security of supply forecasting and information policy.

The SRC's advice to the Authority is:

- implementing those projects in late-April should not be too problematic, although any later creates further impact on traders
- consultation papers should be comprehensive and include questions about the timing of implementation
- there are circumstances in which a South Island-only official conservation campaign could 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.

#### Coordination of critical gas contingencies with the electricity system operator

In response to an SRC request, the system operator gave a presentation on the coordination of critical gas contingencies between the Gas Industry Company's critical contingency operator and the system operator.

The SRC's advice to the Authority is:

- the system operator is not confident the gas critical contingency operator is kept well-informed by the gas industry
- security and reliability information is less transparent in the gas industry than in the electricity industry. As such, the gas industry poses a 'blind spot' for the security and reliability of the electricity industry. The more imperfect the information, the more inefficient the risk-management decisions of electricity market traders will tend to be
- the Authority should consider ways to influence the transparency of gas industry information relevant to electricity security and reliability.

#### High-level electricity implications of climate change

The Authority Board received a paper on the high-level implications of climate change on the security of the power system. Subsequently, the Board suggested the paper might be of interest to the SRC. The SRC agreed and received the identical paper.

The SRC's advice to the Authority is:

- the paper was successful in dispelling some preconceptions that climate change must have negative consequences for electricity security of supply
- as the paper noted, there is substantial uncertainty involved with any assertion that climate change will be positive for electricity security of supply

There is no further advice arising from the matters discussed at the SRC's 24 October 2018 meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H Roy', written in a cursive style.

Heather Roy  
**Chair of the SRC**

cc: SRC members, Rory Blundell (Electricity Authority)

16 January 2019

Hon Heather Roy  
Chair  
Security and Reliability Council (SRC)

By Email

Dear Heather

Thank you for agreeing to take on the role of Chair of the Security and Reliability Council. The Electricity Authority Board and senior management look forward to working with you and your colleagues on the important activities of the Council.

Thank you to the SRC for the following letters of advice to the Authority Board.

- The 27 August 2018 letter from the temporary Deputy Chair, Bruce Turner. The advice resulted from the SRC's 22 June 2018 meeting.
- The 21 November 2018 letter from yourself. The advice resulted from the SRC's 24 October 2018 meeting.

I note all of the advice and respond below to a selection of key pieces of that advice.

### **The SRC's advice of 27 August 2018**

The Board received and discussed this advice at its 3 October 2018 meeting.

With respect to the advice about cyber-risk and 'black swan' events, we affirm our continued vigilance. In an increasingly interconnected world that is dependent on electricity, the decisions that individual industry participants make about managing risk can have large impact-s on all of society.

We also endorse the Gas Industry Company's (GIC) lessons listed in the advice.

- Choosing the right style of regulatory approach for the problem at hand is an important and oftendifficult decision. There are pros and cons involved with market facilitation measures versus regulatory measures. Within regulatory measures there are pros and cons with principles-based, outcome-based and prescriptive approaches.
- Our preparation for crises includes communication plans and exercises of capability where possible. We expect and require our market operation service providers to be well-prepared, to regularly test those preparations, and to perform to an excellent standard. We require they conduct regular audits and review the reports on these.

We look forward to further advice on the emergency preparedness of distributors. For completeness, we have provided your advice to the Commerce Commission as it is relevant to their regulatory role.

Thank you for the candid advice about our review of winter 2017. We have relayed the SRC's comments to the review authors.

We have provided your advice about thermal fuels in the hydro risk curves to Transpower, in their capacity as the system operator. We agree it is important that the system operator alter the hydro risk curves only when it has verifiable information about thermal fuel constraints.

The SRC advised why it considers the Authority should be “endeavouring to improve consumers’ understanding of the electricity industry.” We agree and consider it is vitally important to educate consumers about how their interests are being represented. This is an ongoing effort. As part of that ongoing effort, we have:

- updated and re-released our publication *Electricity in New Zealand*, which gives general information about the industry and the market<sup>1</sup>
- released and promoted a series of short video clips that help explain the electricity industry to ordinary consumers (including one video about ‘where power comes from’ that deals with reliability matters).<sup>2</sup>

### **The SRC's advice of 21 November 2018**

The Board received and discussed this advice at its 4 December 2018 meeting.

We have included your advice for the system operator’s future self-reviews of performance as one of the five recommendations in our annual review. We also updated a second recommendation to focus on the quality of customer survey responses as per your advice.

In relation to your advice about our project to review the regulatory settings for official conservation campaigns, we note that our consultation paper asks stakeholders about the timing of implementation as we recognise the impact this can have on traders.

With respect to your advice about timeliness and transparency of gas industry information, I have instructed our Chief Executive to raise the matter with the Council of Energy Regulators to encourage the GIC to treat the matter with importance. This matter is also being considered as part of our inquiry into the Undesirable Trading Situation claim made by several market participants last year and in our review of market performance during the gas outages in spring 2018. Given the Minister of Energy and Resources has written to the GIC encouraging improvement in regard to the availability of gas industry information, we know the GIC is already aware of the high level of interest. The Minister’s letter, and the GIC’s response are publically available.<sup>3</sup>

Yours sincerely



Brent Layton

cc: Rory Blundell

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<sup>1</sup> Available from <https://www.ea.govt.nz/about-us/media-and-publications/electricity-nz/>

<sup>2</sup> Available from <https://www.ea.govt.nz/about-us/media-and-publications/videos/>

<sup>3</sup> Available from <https://www.gasindustry.co.nz/work-programmes/gas-sector-information-disclosure/overview/>

15 March 2019

Dr Brent Layton  
Chair  
Electricity Authority  
PO Box 10041  
Wellington 6143

Dear Brent

## Advice on the Electricity Price Review's option G2

As you are aware, the Expert Advisory Panel to the [Electricity Price Review](#) have released the [second phase of their review](#) for consultation. Among the many options discussed, the Panel favours an option (option G2) to examine security, reliability and resilience of electricity supply in a way that involves the Security and Reliability Council (SRC).

*“The Minister of Energy and Resources would ask the Electricity Authority to conduct a thorough review of the security, reliability and resilience of the electricity supply, in response to the range of technological and other developments that, as noted in our first report, have the potential to profoundly alter the way the electricity sector works. A review would examine whether the electricity supply was positioned to meet those challenges in the decades ahead.*

*The Electricity Authority would assign the task to the Security and Reliability Council to complete within 12 months. The review should include the Council's own terms of reference and work programme; Transpower's policies and procedures for risk monitoring (as system operator responsible for managing the power system and operating the wholesale electricity market); the Electricity Authority's market development work programme and market performance monitoring functions; and other relevant matters, including matters overseen by agencies such as the Commerce Commission and Gas Industry Company.*

*Some submitters said security of supply should not be taken for granted, particularly in light of the many uncertainties facing the sector. Others emphasised the need to focus less on security and more on resilience. We think both are important.*

*We favour this option.”*

Source: Page 35 of the Electricity Price Review options paper, 18 February 2019

The consultation closes on 22 March. As we are not due to meet until the week after this, the SRC have urgently discussed option G2 so that I can provide this letter of advice. We would like the Electricity Authority to include it and consider it as part of its submission to the Electricity Price Review.

The SRC's advice to the Electricity Authority on this topic is that:

- The SRC is supportive of option G2 and willing to assist.
- For a high-quality outcome to be achieved, the scope, timeframe and resourcing of this project would need to be aligned.
  - At the moment, the scope is not well defined. For the 12 month timeframe to be achieved it is vital that the scope is set clearly and commensurately.
  - If the scope is to be broad it is vital that the project has sizable resources allocated to it. We consider it is likely that expert analysis and secondary research of relevant foreign electricity markets will be an important part of the resourcing for this project. Currently this resource is not available to the SRC.
  - There may be some merit in considering greater flexibility with scope and timing. Aside from smoothing resource requirements, it could also give time for Government climate targets to be set as a result of Interim Climate Change Commission reporting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H Roy', is positioned above the printed name.

Heather Roy

**Chair of the SRC**

cc: SRC members, Rory Blundell (Electricity Authority)