



T R A N S P O W E R

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Richard Fletcher
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29 January 2010

Lisa DuFall
Electricity Commission
PO Box 10041
WELLINGTON 6143

Dear Lisa

Re: Annual Security Assessment 2009

Thank you for the opportunity to submit feedback on the Electricity Commission's 1 December 2009 consultation paper *Annual Security Assessment 2009*.

Transpower generally supports the key conclusions set out in the Executive summary. Our brief responses to the questions posed in the consultation document are attached.

In addition to our responses to the questions, we make the following key points:

Information and Results

We note that the Electricity Commission (Commission) has been constrained in its ability to disclose information on the availability of existing generation and the availability of thermal fuel. The absence of this information means that it is difficult, if not impossible, to reproduce the Commission's results independently. It is therefore necessary to take the results presented at face value.

The absence of this information also makes it difficult to assess the out years. Most importantly, is the reduced availability of existing plant permanent or could this outcome be influenced by commercial arrangements or changes to the market design?

The Commission has noted that the lack of a requirement to publish such information in the context of participant risk management. The lack of such information should be considered by the Commission from this and other perspectives as part of its market development programme.

Market Design Initiatives

The new development options advised to the Commission to inform its 2008 annual security assessment, and the scenario analysis undertaken in this year's security assessment, together highlight the need for the market design to be robust to wider economic shocks and a degree of regulatory uncertainty. Investors have historically considered and promoted many projects. If the Commission's assessment of demand growth correctly foretells an absence of development options for 2012 and 2013, this result, if explored further, could provide useful insights into the adequacy of market investment incentives. Further work of this sort should be considered as part of the market development programme.

Similarly, the scenarios which seek to test the consequence of “poor unit commitment” may help to identify inadequate market incentives and consequently the need for further work on the market design.

We agree that options for achieving better unit commitment outcomes for winter 2010 will be tested over coming months. However, these and other options need to be considered against a more diverse range of inflows and generation technology development scenarios as part of the market development programme.

The Commission’s report acknowledges that at least 70MW is not available “for transmission pricing reasons”. There is growing evidence that at least 200MW of capacity may be unavailable in the South Island due to the HVDC transmission pricing methodology¹. The release of this capacity, along with the expanded HVDC link capacity, would go a long way towards addressing the capacity shortfall identified in 2012 and 2013.

In summary, the analysis could be seen to suggest that, if the Commission were to conclude that there was a need to procure additional reserve energy, this would be to compensate for limitations in the market design and transmission pricing methodology over the short or medium terms (or both) rather than inadequate participant investment per se.

Relationship to the Ministerial Review

While the assessment makes no reference to the Ministerial Review of the sector the conclusions are consistent with the intention to phase out the reserve energy regime.

If you would like to discuss our submission in more detail, please contact Gari Bickers on (04) 495-7082 or (021) 461-929 or e-mail gari.bickers@transpower.co.nz .

Yours sincerely



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Regulatory Strategy Manager

¹ As part of its 2006 review of transmission pricing, the Electricity Commission concluded that HAMI was the best allocator of the alternatives available for setting HVDC charges.

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Transpower's response to the consultation questions

Question No.	Question	Response
1	Do you agree that the baseline and sensitivity scenarios presented are appropriate for use in this assessment?	While we appreciate that the Commission has been unable to disclose the source information supporting the declining availability of existing generation, the inclusion of a scenario with continued availability of existing generation would have enabled the impact of notified generation availabilities to be more readily assessed.
2	Do you consider that any specific assumptions are incorrect? If so, which and why?	<p>Pole 1 is capable of 200MW sent. Pole 2 + half Pole 1 has regularly sustained 730MW (received) since October 2009, some 90MW higher than the assumption which appears to have been used in the analysis.</p> <p>Is the de-rating of the Waitaki by 90MW applicable when Pole 1 is supporting south – north transfer?</p> <p>To place the actual and assumed thermal generation in Table 14 into context, it may useful to include a comparison between actual and assumed intermittent generation.</p>
3	Do you agree that the criteria for the Commission to procure additional Reserve Energy are not met at this point?	Yes.
4	Do you agree that unit commitment issues pose a significant risk to security at peak times in 2010 and 2011?	<p>The consultation paper itself highlights the importance of unit commitment.</p> <p>Appropriate means of risk management for 2011 should flow from the winter 2010 initiatives and the market development programme initiatives.</p>
5	If so, do you have any comment on what measures should be taken to promote unit commitment decisions that support security of supply?	Refer above.

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Question No.	Question	Response
6	Do you agree that the criteria for the Commission to procure additional Reserve Capacity are not met at this point?	Yes.
7	Do you have any comment on what is required to promote appropriate generation investment decisions?	<p>Transpower has generally believed that there are adequate incentives within the current market design to incentivise sufficient energy investments. This is borne out by the consultation paper itself.</p> <p>Whether the necessary incentives exist to manage primary fuel in dry years, invest in adequate capacity, and make capacity available when required are questionable. Transpower agrees with the Commission that the introduction of a well designed scarcity pricing regime has the potential to create the necessary incentives to address these issues. Such a regime should be pursued in advance of consideration of further measures such as 'compulsory contracting'. Please refer to our submission to the Commission on scarcity pricing and compulsory contracting, December 2009.</p>
8	Do you have any further comments on the Commission's conclusions?	No.