

Electricity Commission

Consultation Paper

System Operator's Draft Policy Statement

April 2007

A. Introduction

Purpose

1. On 31 March, the system operator provided the Electricity Commission with the draft policy statement that it is required to provide to the Commission for the period 1 September 2007 to 1 September 2008, in accordance with the requirements of section II of Part C of the Electricity Governance Rules 2003.¹
2. Under rule 11, the Commission is required to publish the draft policy statement for submissions. As the policy statement is included as Schedule C4 to the Rules and the proposal is to replace the existing policy statement with the version now submitted by the system operator, the Commission is also required to follow the rule change proposal provisions under the Electricity Act 1992 (Act).
3. The purpose of this paper is to meet both sets of requirements, as further set out below.

Submissions

4. The Commission invites submissions on the draft policy statement by 5pm on 14 May 2007. Please note that submissions received after this date may not be considered.
5. The Commission's preference is to receive submissions in electronic format (Microsoft Word and/or pdf). Submissions in electronic version should be emailed with 'System Operator's 2007 Draft Policy Statement' in the subject header to info@electricitycommission.govt.nz.
6. If submitters do not wish to send their submission electronically, they should post one hard copy of their submission to the address below.

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7. The Commission will acknowledge receipt of all submissions electronically, or in writing if the submissions do not have a return email address. Please

¹ All references to the Rules in this consultation paper, and its appendices, are to the rules in section II of part C of the Rules.

contact Jenny Walton if you do not receive acknowledgement of your submission within two business days of sending it to the Commission.

8. Where possible, submissions should be provided in the format shown in Appendix 4. Your submission is likely to be made available to the public on the Commission's website. Submitters should indicate any documents attached in support of the submission, in a covering letter and clearly indicate any information that is provided to the Commission on a confidential basis. All information provided to the Commission is subject to the Official Information Act 1982.

Abbreviations used in this paper

Act	Electricity Act 1992
Commission	Electricity Commission
Rules	Electricity Governance Rules 2003
Regulations	Electricity Governance Regulations 2003
MEUG	Major Electricity Users Group
PPOs	The system operator's Principal Performance Obligations as set out in section II of part C of the Rules
GPS	Government Policy Statement on Electricity Governance
Minister	Minister of Energy

B. Executive summary

Draft Policy Statement 2007/08

9. The policy statement (prepared by the system operator and attached as Appendix 2 to this paper) plays a key role in the set of rules, contracts and arrangements that collectively deliver common quality and orderly system operation. The policy statement sets out the policies and means that are considered appropriate for the system operator to observe in complying with its PPOs during the term of that policy statement. Rule 10.1 requires the system operator to submit a draft policy statement to the Commission no later than 31 March each year. It must be reviewed and updated at least annually. The policy statement's contents and the annual review process are prescribed in the Rules.
10. In preparing the draft policy statement for the 2007/08 period, the

Commission understands that the system operator has considered various development issues contained in submissions on previous policy statements.

11. The system operator has advised the Commission that it has already undertaken consultation on the draft policy statement, as required by rule 10.1. This has taken the form of consultation with selected parties including five generators, two distributors, the grid owner, the Commission, and MEUG. The Commission understands the draft policy statement incorporates changes made as a result of that consultation. The system operator has also completed a legal review of the policy statement.
12. The Commission published the draft policy statement on 30 March 2007 and now invites submissions on it in accordance with rule 11.2 of section II of part C. The statement of proposal, prepared in accordance with section 172F of the Act, is attached as Appendix 1 for the purpose of consultation on the rule change proposal, as the replacement of the existing policy statement set out in Schedule C4 of part C of the Rules constitutes a rule change.

Process for amending the Rules

13. The Minister may make a rule for all or any of the purposes for which an electricity governance regulation may be made.² A rule is made by publishing a notice in the *Gazette*.³
14. Sections 172X to 172Z of the Act also apply.⁴ The Commission must, in formulating recommendations on the making or amending of rules, give effect to its principal objectives and specific outcomes and its Government Policy Statement (GPS) on electricity governance objectives and outcomes.⁵ The Minister must have regard to a recommendation by the Commission in exercising any of his functions or powers in relation to the Rules.⁶
15. Under section 172E(2)(b), before making a recommendation, the Commission must:
 - a. undertake an assessment under section 172F;
 - b. consult with persons that the Commission thinks are representative of the interests of persons likely to be substantially affected by the proposed rules;
 - c. give those persons the opportunity to make submissions; and

² Section 172H(1) of the Electricity Act 1992.

³ Section 172I(1).

⁴ Section 172E(2)(a).

⁵ Section 172X.

⁶ Section 172Z(1).

- d. consider those submissions.
16. Under section 172F(1), before making a recommendation to the Minister on an electricity governance rule, the Commission must:
- a. seek to identify all reasonably practicable options for achieving the objective of the rule;
 - b. assess those options by considering the benefits and costs of each option, the extent to which the objective would be promoted or achieved by each option, and any other matters that the Commission considers relevant;
 - c. ensure that the objective of the rule is unlikely to be satisfactorily achieved by any reasonably practicable means other than the making of the rule (for example, by education, information or voluntary compliance); and
 - d. prepare a statement of proposal for the purpose of consultation under section 172E(2)(b)(ii).⁷

Statement of proposal and assessment

17. The Commission has prepared a statement of proposal, including the assessment as required under section 172F of the Act. The statement of proposal is set out in Appendix 1 to this paper.
18. Under section 172F(3) of the Act, the Commission is not required to comply with section 172F(1) (which requires the assessment and preparation of a statement of proposal), if it is satisfied that the effect of the recommendation is minor and will not adversely affect the interests of any person in a substantial way. The Commission is satisfied that the effect of several of the proposed rule amendments⁸ is minor, and will not adversely affect the interests of any person in a substantial way. The minor changes are identified as part of the section 172F assessment referred to above. However, in accordance with section 172F(3), a full assessment of these minor amendments has not been prepared.

Consideration against section 172X objectives

19. Section 172X of the Act requires the Commission, in formulating recommendations for rules, to outline how the proposal will give effect to its

⁷ Section 172F(2) provides that the statement of proposal must contain a detailed statement of the proposal, a statement of the reasons for the proposal, and an assessment of the reasonably practicable options, including the proposal, and other information that the Commission considers relevant. Under section 172E(2)(b)(ii), the Commission must consult with persons that it thinks are representative of the interests of persons likely to be substantially affected by the proposed rule.

⁸ In particular, minor wording changes to clauses 11.5, 12.2, 19, 20, 40, 49, 89 -94 of the policy statement in Schedule C4.

principal objectives and specific outcomes (which are set out in section 172N of the Act) and to its GPS objectives and outcomes.

20. Appendix 3 contains a table listing each specific objective and outcome in the Act and the GPS and, where relevant, how the draft policy statement may help achieve it.

Conclusion

21. The Commission notes that the system operator has advised the Commission that it has already undertaken consultation on the draft policy statement, as required by rule 10.1. The Commission understands the draft policy statement contained in Appendix 2 incorporates changes made as a result of the consultation undertaken by the system operator.
22. The Commission now invites submissions on the draft policy statement in accordance with rule 11.2. Please note that the Commission is required to provide a copy of all submissions it receives to the system operator, and publish the submissions, which it intends doing by making them available on the Commission's website.
23. The system operator has the right to make its own submission on the draft policy statement and on the submissions received by the Commission in relation to it, within ten business days after the submission expiry date (under rule 11.3.2).
24. The Commission is then required to complete its consideration of all submissions received on the draft policy statement, in accordance with rule 11.3, and make recommendations to the Minister in accordance with the Act.
25. The statement of proposal, prepared in accordance with section 172F of the Act, is also included for the purpose of consultation on the rule change proposal (as the replacement of the existing policy statement set out in Schedule C4 of part C of the Rules with the new draft policy statement is a rule change under the Act).

Appendix 1: Statement of proposal

Statement of proposal

1. Sections 172E and 172F of the Electricity Act 1992 (Act) set out the requirements on the Commission regarding consultation on, and assessment of, a rule before recommending that an amendment to the Rules be made to the Minister.⁹
2. The Commission interprets rule 11 of the Rules as requiring it to develop a statement of proposal for the draft policy statement provided by the system operator, publish both the proposal and the policy statement for the purpose of consultation, and invite submissions. As the proposal constitutes a rule amendment, the Commission must follow the process set out in the Act.
3. This paper is a statement of proposal under section 172F(2) of the Act, for the purposes of consultation under section 172E(2)(b)(ii). As such, this proposal is required to set out a detailed statement of the proposal, a statement of the reasons for it, provide an assessment of the proposal and reasonably practicable options identified by the Commission, and any other information that the Commission considers relevant.

The proposal

4. The policy statement plays a key role in the set of rules, contracts and arrangements that collectively deliver common quality and orderly system operation. The statement sets out the policies and means that are considered appropriate for the system operator to observe in complying with its PPOs during the term of that policy statement. Rule 10.1 requires the system operator to submit a draft policy statement to the Commission no later than 31 March each year. It must be reviewed and updated at least annually. The statement's contents and the annual review process are prescribed in the Rules.
5. Against this background, the objective of the proposed rule amendment is to set out the policies and means which are considered most appropriate for the system operator to observe in complying with the PPOs, subject to the obligation to act as a reasonable and prudent system operator while meeting the requirements of the draft policy statement set out in rules 8 and 10.
6. As set out above, the proposal is to replace the existing policy statement set out in Schedule C4, in its entirety, with the draft policy statement. For the purposes of the statement of proposal, the Commission considers that the replacement of the existing policy statement with the draft policy statement is one rule amendment proposal consisting of an integrated package of changes.

⁹ Section 172H(3) of the Act provides that if the Minister makes, or the Commission recommends, a rule for a purpose for which an electricity governance regulation may be made, the Minister and the Commission must comply with the same conditions and process that would apply under section 172D(3), section 172E, or section 172F if they were making recommendations on that electricity governance regulation, and those sections apply (with all necessary modifications) accordingly.

7. The proposed new Schedule C4 is attached as Appendix 2 to this paper. Parties should read the draft policy statement carefully for further details of the proposed rule amendment. The key differences between the existing and draft policy statements are set out in table 1 below.

Table 1: Key changes proposed

Objective	New clause	Description
More detailed description of security planning and coordination	11.5	Clarify obligation to facilitate planned asset outages
	50-52	Revision of process for regional contingency planning
	54-55	Process for more facilitation of outage planning (obligations in technical code D of Schedule C3 of part C)
Extended discretion and flexibility in identification and management of risks	11.5	Allow system operator discretion on recommending and facilitating planned asset outages
	12.1	Widen definition of credible events to include other temporary circumstances during commissioning (not just due to the behaviour of assets)
	19-20	Provides the system operator discretion to apply constraints when it sees fit
	53	Allow system operator to deviate from detailed regional contingency planning (detailed in 50-52)
	56	Backstop for system operator to go beyond detailed outage planning (detailed in 54-55)
	66-67	Revise current dysfunctional verbal notice arrangements
Defined methodology of identification, assessment and notification of risks	13-14	New requirement for the system operator to review the basis on which it identifies, assesses and assigns potential credible events
	30	Timed publishing and notification to participants and the information system service provider of stability and capability limits and market systems constraints
	61	Endeavour to send additional information (when available) to the information system service provider on standby residual shortfall
	68	More details included in grid emergency notices
	69	Additional obligation to send grid emergency report (provided to the Board) to participants
	74	Remove obligation to declare a grid emergency because frequency keeping is unable to be maintained

Objective	New clause	Description
Formulated processes and procedures for management of constraints	23-24	Allowance for a change in the System Operator's procedures to occur, on notice, during the currency of the policy statement prior and post new market systems
	25	Description of the intention of the use of new system constraints
	26-29	Description of the process - that occurs from time to time - of power system analysis, identification of events and input of operational limits in SPD to develop market systems constraints
	30	Timed publishing and notification to participants and the information system service provider of stability and capability limits and market systems constraints
New provisions for risk management	58.4,59-60	Include standby residual shortfall as one of the mechanisms to avoid load shedding
	128.2	Include an obligation to publish an explanatory guide for testing of assets to assist participants in removing the risk of non-compliance with asset testing by unexpected failure to meet stated capability
Increase clarity of policy statement	40, 49, 74, 87.3.1, 87.9, 88, 89.1, 90, 92.1, 151	Minor wording changes for the purpose of further clarification or arising from proposed related new clauses
	161, 176, 178, 181-182, 185, 188-189	New definitions to assist explanation of policy statement

Statement of the reasons for the proposal

8. The reasons for the proposal are to ensure that Schedule C4 (the policy statement) contains the policies and procedures the system operator considers appropriate in order to comply with the PPOs and other Rules during the twelve-month period beginning 1 September 2007. To this end, rule 10 requires the system operator to submit a draft policy statement no later than 31 March each year to the Board.
9. Rule 11.1 requires the Board to publish the draft policy statement for submissions within 20 business days of receiving it from the system operator.
10. Rule 11.4 requires the Board to consider submissions received on the draft policy statement and to make recommendations to the Minister in accordance with the Act. Deleting the existing policy statement and the inserting the new policy statement as a Schedule C4 to part C under the Rules requires a rule amendment.

11. The draft policy statement is prepared by the system operator in accordance with the Rules. It contains the proposed policies and procedures the system operator considers appropriate to comply with the PPOs and other Rules during the twelve-month period beginning 1 September 2007. The Commission considers that the draft policy statement complies with Rule 10.2.

Identification and assessment of reasonably practicable options

Reasonably practicable options

12. Section 172F(1) of the Act requires the Commission to seek to identify all reasonably practicable options for achieving the objective of the proposed rule change. As set out above, the proposal is to replace the existing policy statement with the draft policy statement.
13. The system operator prepares the draft policy statement in accordance with the Rules. The Commission recommends the policy statement to the Minister after considering submissions on the draft policy statement in accordance with the process under the Act. For the purposes of this consultation, the Commission considers that the only reasonably practicable option to the proposal to be the status quo (i.e. retain the existing policy statement).
14. The Commission has prepared the assessment below on the basis that the draft policy statement is an integrated package of changes.

Assessment

15. Section 172F(1) of the Act requires the Commission to assess:
 - a. the costs and benefits of each reasonably practicable option, including the proposal;
 - b. the extent to which the objective would be promoted or achieved by each option; and
 - c. any other matters that the Commission considers relevant.
16. The assessment which follows is largely based on information received from the system operator.

Benefits and costs

17. Given that the only reasonably practicable option to the draft policy statement is to retain the existing policy statement, the assessment of the benefits/costs associated with the draft policy statement is set out relative to the existing one.
18. The Commission has considered and decided that it is not possible to quantify the costs and benefits of the proposal and the alternative with any reasonable degree of accuracy. Therefore, the benefits and costs of its proposal and the alternative have been evaluated in qualitative terms.

19. The system operator provided the Commission with its view of the benefits associated with the changes proposed in the draft policy statement. The Commission has considered the benefits identified by the system operator, and summarises the benefits that the Commission has identified in table 2 below.

Table 2: Benefits associated with proposal

Clause(s)	Change	Benefit
11.5	Clarify obligation of system operator to facilitate planned asset outages	Clarity of policy statement enhanced
12.1	Widen definition of credible events to include other temporary circumstances during commissioning (not just due to the behaviour of assets)	Ensure all reasonable circumstances are contemplated in the determination of credible events
13-14	New requirement for the system operator to review the basis on which it identifies, assesses and assigns potential credible events	Regularly reviewing the methodology from determining credible events is likely to result in the optimum purchase of reserves and other ancillary services
19-20	Provides the system operator discretion to apply constraints when it sees fit	Increasing the clarity in relation to the system operator's discretion to act
23-30	New provisions that facilitate the introduction of the system operator's new market systems and describe development of thermal constraints	New processes and procedures are being introduced in market system project and these are expected to improve productivity and result in more optimal constraints, thereby more accurately reflecting the actual state of the power system (and, potentially, reducing market costs)
50-53	Detailed processes and procedures in respect of regional contingency planning	Reduces administrative burden on system operator when managing a power system emergency, thereby enhancing ability of system operator to meet the PPOs. Reduced compliance costs for system operator
54-56	Detailed processes and procedures in respect of outage planning	Greater detail of the role to be played by the system operator in facilitating asset outage planning is inherently desirable in assisting participants understand what role they, and the system operator, play in co-ordinating outage planning

Clause(s)	Change	Benefit
58.4-61	Introduces notice of standby reserve shortfall as a mechanism to avoid load shedding and requires system operator to advise participants of standby reserve shortfalls and to publish input data	More likely the system operator will meet the PPOs in circumstances when it might otherwise have to rely on emergency procedures and possibly load shedding
66-67	Clarification of when a written notice will be issued following declaration of a grid emergency	Reduces administrative burden on system operator when managing a power system emergency, thereby enhancing ability of system operator to meet the PPOs. Reduced compliance costs for system operator
68	Requirement for system operator to include details of assets returned to service in a formal notice issued under rule 4.1 in Schedule C3	This will assist participants to better plan responses to a generator
69	Requires system operator to send grid emergency report (provided to the Board) to participants	Increases confidence in system operator's management of grid emergencies
74	Clarification of system operator's demand shedding policy	Increased clarity and transparency around the system operator's processes and procedures
128	Obligation on the system operator to publish a test plan and explanatory companion guide	Better clarity for participants on how they can meet the test obligations in the rules will enhance the efficiency of the tests, and thereby lower costs, and better serve the information needs of the both participants and the system operator
151	For the avoidance of doubt, confirmation the system operator will treat the Grid Owner as it would any other asset owner when facilitating outage co-ordination and regional planning	None
161, 176, 178, 181, 182, 185, 188, 189	New definitions added to increase clarity	Including the explanations potentially increase the ability of participants to understand the intent of the policy statement

Clause(s)	Change	Benefit
1, 12.2, 17.2.3, 34, 40, 49, 74, 75, 77, 86-92, 98, 102	Minor formatting and grammatical changes	Clarity of policy statement enhanced

20. The System Operator also provided the Commission with its view of the costs associated with the changes proposed in the draft policy statement. The Commission has considered the costs identified by the system operator, and summarises the costs that the Commission has identified in table 3 below.

Table 3: Costs associated with proposal

Clause(s)	Change	Costs
13-14	New provision requiring the system operator to review the basis on which it identifies, assesses and assigns potential credible events	The system operator will incur administrative costs in completing the review. These can be regarded as normal costs of carrying out the system operator service. Other participants and the Electricity Commission will incur administrative costs to the extent its participate in the reviews, at the request of the system operator
23-30	New provisions that facilitate the introduction of the system operator's new market systems and describe development of thermal constraints	The changes are part of the costs of the system operator's new market systems which the system operator considers can be introduced without requiring changes to the policy statement. Therefore the costs of the changes are related to the introduction of the new market systems and not to changes in the policy statement
50-53	Detailed processes and procedures in respect of regional contingency planning	Additional planning will incur administrative costs to the system operator and those participants who assist in the planning. In large measure such costs are business as usual costs for the system operator. In any event, the costs may be slight by comparison with the consequences to the community of the planning not having been carried out
54-56	Detailed processes and procedures in respect of outage planning	None
58.4-61	Introduces notice of standby reserve shortfall as a mechanism to avoid load shedding and requires	This change pre-dates the draft policy statement and the costs and benefits have already been assessed by the Commission as part of the work

Clause(s)	Change	Costs
	system operator to advise participants of standby reserve shortfalls and to publish input data	associated with the National Winter Group
128	Obligation on the system operator to publish a test plan and explanatory companion guide	Administrative costs to the system operator in preparing and updating the guide. These are essentially 'normal business' costs and are less than \$25,000. Ongoing administrative costs will be negligible

21. Based on the information provided to it, the Commission's view is that, when comparing the proposal with the status quo, the benefits of replacing the existing policy statement with the draft policy statement exceed the costs. Accordingly, the Commission considers the assessment supports the proposal.
22. However, the Commission welcomes submissions on its view of the benefits and costs identified above. For instance, the Commission notes that several proposed changes appear to increase the discretion for the system operator to perform actions contained in the policy statement.

Extent to which the objective is promoted or achieved

23. The draft policy statement intended to replace Schedule C4 better meets the objective of the rule change proposal than the status quo. The system operator considers that the existing policy statement no longer contains the most appropriate policies and means for the system operator to observe in complying with the principal performance obligations to the same extent as the proposal.

Summary of the assessment

24. The Commission's view is that the assessment of the benefits and costs of the proposal and the status quo supports the proposal. The Commission also considers that the proposal meets the objective of the rule amendments to the greatest extent. However, the Commission welcomes submissions on this view.
25. Accordingly, overall, the assessment of the benefits and costs of, and the extent to which the objective would be promoted and achieved by, each option would appear to support the proposal.

Other means to achieve the objective

26. The Commission must ensure that the objective of the rule is unlikely to be satisfactorily achieved by any reasonably practicable means other than the making of the rule (for example, by education, information, or voluntary compliance).
27. The objective cannot be achieved by anything other than a rule change as the Rules require the system operator to submit a draft policy statement to the Commission, and for the Commission to publish it, invite submissions, consider

those submissions, and to make recommendations to the Minister for its inclusion in the Rules (which also requires the revocation of the existing policy statement).

Appendix 2: Proposed rule amendments

The proposed rule amendments can be found at the link below.

<http://www.electricitycommission.govt.nz/pdfs/opdev/comqual/consultationpdfs/2007-Draft-Policy-Statement-comparison-version.pdf>

Appendix 3: Consideration against objectives and outcomes

Objectives and Outcomes under section 172N of the Act	Response
The Commission's principal objectives are as follows:	
<ul style="list-style-type: none"> • to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable, and environmentally sustainable manner; and • to promote and facilitate the efficient use of electricity. 	The Commission understands that the proposed draft policy statement enhances efficiency and reliability by enabling the system operator to better plan to comply with, and comply with, its PPOs in respect of common quality and system operation in real time.
The specific outcomes that the Commission must seek to achieve are as follows:	
a. energy and other resources are used efficiently;	<p>The Commission understands that the proposed draft policy statement enhances efficiency by enabling the system operator to better plan to comply with and comply with its principal performance obligations in respect of common quality and system operation in real time.</p> <p>Enhanced clarity and transparency also support this objective.</p>
b. risks (including price risks) relating to security of supply are properly and efficiently managed;	<p>The Commission understands that the proposed draft policy statement reduces risks relating to security of supply by enabling the system operator to better plan to comply with and comply with its principal performance obligations in respect of common quality and system operation in real time.</p> <p>Enhanced clarity and transparency also support this objective.</p>
c. barriers to competition in the electricity industry are minimised for the long-term benefit of end-users;	The Commission does not consider that the draft policy statement materially affects this objective.
d. incentives for investment in generation, transmission, lines, energy efficiency, and demand-side management are maintained or enhanced and do not discriminate between public and private investment;	The Commission does not consider that the draft policy statement materially affects this objective.

<p>e. the full costs of producing and transporting each additional unit of electricity are signalled;</p>	<p>The Commission does not consider that the draft policy statement materially affects this objective.</p>
<p>f. delivered electricity costs and prices are subject to sustained downward pressure; and</p>	<p>The Commission does not consider that the draft policy statement materially affects this objective.</p>
<p>g. the electricity sector contributes to achieving the Government's climate change objectives by minimising hydro spill, efficiently managing transmission and distribution losses and constraints, promoting demand-side management and energy efficiency, and removing barriers to investment in new generation technologies, renewables, and distributed generation.</p>	<p>The Commission understands that the draft policy statement contains changes to the way transmission constraints are managed that results in less conservative limits that potentially reduces the cost to market participants.</p>

Appendix 4: Form of submission

Submitters are invited to provide comment on the draft policy statement in tabular form of the nature indicated here. Please give reasons for your views.

Draft Policy Statement Clause Reference	Submitter's Comments	Suggested Amendment