

## Winter Review 2008 Terms of Reference

### **Objective**

Review experience with dry year risk management during winter 2008, and identify options to improve the policy framework.

### **Establish the facts**

- How severe was the drought in 2008:
  - are 2008 inflows indicative of a change in inflows patterns?
- What was the market-based response to the drought in terms of:
  - thermal and other non-hydro generation, and managing hydro storage;
  - demand response (large users and mass market campaigns);
  - what was the impact on small commercial and domestic consumers; and
  - other actions e.g. transmission reconfiguration.
- What were the tools and options available to the Commission within the policy framework
  - how effectively was the policy framework communicated to stakeholders?
- What was the Electricity Commission's response to the drought in terms of:
  - Whirinaki operation;
  - other reserve energy measures; and
  - other actions e.g. altering ancillary service rules.

### **Effectiveness of framework**

Management of supply and demand risks are an outcome of policy implicit within the market design and the Commission's security of supply policy. How effective was the existing policy framework in providing management of dry year risk during the winter of 2008? Specific issues to consider include:

- the extent to which actions of parties differed from those expected under in the existing policy framework (e.g. in relation to thermal generation, hydro releases);
- the extent to which security outcomes differed from those sought under the existing policy framework;

- to what extent did the policy framework provide incentives for participants to act consistently with the security outcomes set out in the GPS;
- the extent to which options, beyond incentives, contributed to attaining the security outcomes set out in the GPS;
- to what extent did the policy framework expose participants to the consequences of their choices; and
- stakeholder tolerance for spot price volatility.

What actions, if any, should be taken to modify the policy framework to improve management of dry year risk? Specific issues to consider include:

- the incentives on wholesale market participants to appropriately manage their exposure to dry year risk;
- the approach for recovering reserve energy costs e.g. uniform levy on all wholesale purchasers versus alternatives;
- reserve energy dispatch policies;
  - optimal strategy to attain policy objectives; and
  - the least cost means of delivering the identified dispatch policies (eg the merits of modifying Whirinaki to provide dual gas/diesel firing capability, the location of Whirinaki); and
- the point at which the Electricity Commission should undertake emergency management actions (as defined in the Government Policy Statement issued in May 2008), and the extent to which this should be signalled in advance.