

TRANSPower NEW ZEALAND LIMITED

Transpower's submission
to the Electricity Commission on:
Update Paper – Demand-side bidding and forecasting

October 2008



TRANSPower

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1. TRANSPOWER'S POSITION

Transpower has been actively involved in, and supportive of, the development of demand-side response in the market since 2000 and has advocated the Demand-Side Bidding and Forecasting (DSBF) initiative as the first step in this process.

2. PREVIOUS RESPONSES

In order to respond to the Electricity Commission's consultation papers, Transpower has devoted considerable resources to assess the proposals in each of these papers. For example, for the July 2007 consultation paper, Transpower created an itemised evaluation of the proposed rule changes, which provided detailed feedback on the impacts of those changes on the operational aspects of the DSBF initiative.

Following the collation of the submissions from the industry, the Electricity Commission (EC) and Concept Consulting arranged to talk through a number of the concerns that Transpower had raised. At the meetings, Transpower provided a clear description of the issues in the proposal that would affect the practical implementation of the initiative. These concerns were duly noted.

3. THE UPDATE PAPER

Transpower was therefore disappointed by the Update Paper published in August 2008. Although some of the changes discussed have been incorporated into the paper, a number of substantial obstacles to practical introduction have remained unchanged. These issues were highlighted because their inclusion in the DSBF proposal will make the initiative difficult if not impossible to operationalise.

It should also be noted that a number of the proposed changes require substantial changes to the processes and IT systems used in the market systems, which will increase the costs of this project considerably.

As the system operator, it is Transpower's responsibility to ensure that any changes to the rules can be incorporated in such a way that the system operator can operate a secure system in a reasonable and prudent manner. This aspect of the system operator's role formed the context for the development of the previous submission – this has not been taken into account by the Commission. Instead additional changes have been suggested that further reduce the ability to operationalise the initiative. The extent to which these new changes also affect real-time security is a further concern.

4. CRITICAL ISSUES

Transpower has taken time to review the detail of the updated report and identified a series of issues that range from drafting ambiguity to critical

matters that place the operational running of the system at risk. Listed below are the issues that Transpower considers to be operationally impractical for the system operator to implement:

4.1 Previously raised Issues

- uncoordinated load information from distributors and purchasers;
- an undefined demand change threshold for variance bids at conforming GXPs;
- relaxation of the bidding accuracy requirements at non-conforming GXPs.

4.2 New issues from the Update Paper

- Allowing "bona fide" changes within the two hour gate closure period

This would make the variance of demand information invisible to the market, which is inconsistent with the aims of the DSBF initiative. The concept of a "bona fide" change is very wide when it is used in an operational environment and not practical. Also, a deadline prior to real-time has to be provided, as information cannot continuously be incorporated into schedules. The gate closure period can be reviewed when the new market systems are implemented; prior to that time, pre-supposing the outcome of such an investigation is not constructive. There would also be asymmetry between what is allowable for a purchaser and what is allowable for a generator.

- Allowing bids to be received by phone and email

The issue of verbal and e-mail communication has been raised at the EGR committee on a number of occasions, noting the risks to both the system operator and the industry of manual entry of data in real time. This is extremely risky and places the system operator in the role of a trading service for participants. The market system is being upgraded to automate a number of manual tasks, allowing verbal and e-mail communication would be a retrograde step. This proposal is highly undesirable and practically problematic. Electronic communication should be a basic requirement for participation in a market.

- Removing the rule that prevents purchasers increasing quantities bid in a grid emergency

The reasoning provided for the removal of the rule is that the system operator has powers to manage grid emergencies in rule 5 of technical code B of schedule C3. The part C rules refer to individual processes agreed between purchasers and the system operator. In a grid emergency situation, each of these would need to be actioned on a one-to-one basis, which is highly impractical and risks the security of the system. The current rule drafting is a blanket rule that covers all

purchasers and is more applicable to a situation where time is a critical component of a successful outcome.

- Considering the PRS forecasts as the basis of the dispatch schedule

The dispatch schedule and dispatch instructions are derived from a number of inputs, including real time demand. The forecasts derived from “pre-dispatch” schedules are only used to evaluate grid status issues such as the system constraints that form part of the dispatch schedule. The system operator is required to operate a secure system in a reasonable and prudent manner; therefore the “pre-dispatch” schedule used for this purpose is the NRS and not the PRS forecast.

5. NEXT STEPS

Transpower advocates improving the efficiency of the wholesale market design and creating effective demand-side participation in the market. It is therefore crucial to ensure that the DSBF initiative is successfully implemented. In order to achieve this aim, the critical issues raised need to be addressed in a manner that recognises the practical problems associated with applying the initiative in real time.

Transpower would therefore welcome the opportunity to discuss the DSBF further with the Commission in order to effectively address practical issues of critical importance. This would be a valuable next step prior to the next formal round of consultation with the industry.