



# **Consultation Paper**

**for**

**ELECTRICITY COMMISSION**

**Proposed Rule Changes to the Definitions of  
"Generating Station" and "Embedded Generating  
Station"**

**14 May 2004**

## PURPOSE OF THIS PAPER

1. Concerns have been raised by a number of participants regarding the definitions of "generating station" and "embedded generating station" in the Electricity Governance Rules 2003 (the Rules). This paper outlines the issues raised and makes suggestions as to appropriate amendments to the Rules. Submissions are sought from market participants on the Commission's proposed changes.

## BACKGROUND

2. A concern was raised by a participant regarding rule 3.27 of section II of part G of the Rules and the definitions of both "unoffered generation" and "generating station". A legal opinion obtained by the Commission agreed that there was an issue with the current definitions and recommended that a rule change would be an appropriate way to address the concern.
3. A second concern was raised by a number of participants regarding rule 4.5 of section III of part C of the Rules and the definition of "embedded generating station". A legal opinion obtained by the Commission agreed that there was an issue with the current rule and that a rule change would be an appropriate way to address the concern.

## ISSUE 1: DEFINITION OF "GENERATING STATION"

### ANALYSIS

4. Rule 3.27 of section II of part G allows for generating plant of less than 10 MW to be considered "unoffered generation" and not be required to offer:

#### **"3.27 Exception for small generation**

##### **3.27.1 No offers required**

Notwithstanding rule 3.1, no **generator** will be required to submit an **offer** for any **generating plant** that is 10 MW or smaller and any **electricity** sold to the **clearing manager** from such **generating plant** will be regarded as **unoffered generation**.

##### **3.27.2 Provision of information**

The **system operator** may require the relevant **generator** to provide information in a form reasonably determined by the **system operator** on the expected **generation** output for any **unoffered generation** from a **generating plant** with a **point of connection** to the **grid**."

The definition of “unoffered generation” which is used in rule 3.27 is:

“**electricity** supplied from a **generating station** that is 10 MW or smaller in capacity for which an **offer** has not been made pursuant to rule 3.1 of section II of part G, but which is purchased by the **clearing manager**”

The definition of “generating station” is:

“a group of two or more **generating units** that are physically connected to the **grid** or to a **local network** and which are combined and offered at a single point of **injection**, or are agreed by the **system operator** to be a **generating station** for the purposes of security, scheduling and dispatch;”

The definition of “generating station” used in rule 3.27 gives rise to three main issues:

- a) The definition of generating station refers to “a group of two or more generating units”, and therefore a generating station does not include stations composed of only one generating unit. This means that a station with only one generating unit consequently excluded from being a generating station and also, if less than 10 MW, excluded from being unoffered generation.
  - b) The definition of generating station refers to “combined and offered at a single point of injection”, and therefore a generating station that does not offer is excluded from being a generating station. With “unoffered generation” also referring to a generating station, a generating station that does not offer is consequently also excluded from being unoffered generation.
  - c) The definition of generating station refers to “agreed by the system operator to be a generating station for the purposes of security, scheduling and dispatch”. The inclusion of this phrase has the potential to create difficulties for market participants and the system operator as there is a lack of objective criteria for its application.
5. In regard to issue (a) above, the logical approach is to delete the reference to “a group of two” and replace this with “one”.
  6. In regard to issue (b) above, the logical approach is to delete the phrase “which are combined and offered at a single point of injection” and replace it with “which inject into the **grid** or **local network** (as the case may be) at a single point of **injection**”.
  7. In regard to issue (c) above, a number of possible amendments have been considered by the Electricity Commission. However, the Commission considers the simplest approach is to delete the phrase “agreed by the system operator to be a generating station for the purposes of security, scheduling and dispatch”.

## ISSUE 2: DEFINITION OF “EMBEDDED GENERATING STATION”

### ANALYSIS

8. Rule 4.5 of section III of part C of the Rules gives the system operator the ability to require embedded generators to supply information relating to the intended operation of embedded generating stations greater than 10 MW. The system operator may only request such information if it reasonably considers the information necessary to assist the system operator in complying with the principal performance obligations (maintaining system security and quality) and achieving the dispatch objective.
9. The definition of “embedded generating station” in part A of the Rules is:  
  
“embedded generating station” means one or more **embedded generating units** that are directly connected to a **local network**”.
10. Some participants have expressed differing opinions on the interpretation of this rule and have asked the Commission to clarify the meaning of the rule. As it is not clear whether the Commission, in the absence of a specific statutory power, is able to provide binding rulings on the meaning of certain rules, the Commission believes it is sensible to revise the definitions to make them clearer.
11. The recommended definition of “generating station” as described above is:  
  
“**generating station**” means one or more **generating units** that are physically connected to the **grid** or to a **local network** and which inject into the **grid** or **local network** (as the case may be) at a single point of injection;”
12. Given that the definition of generating station includes both embedded generating stations and grid-connected generating stations, it would be consistent to use the definition for “generating station” as the basis for the definition of “embedded generating station”. The definition of “embedded generating station” would therefore be amended to;  
  
“**embedded generating station**” means one or more **generating units** that are physically connected to a **local network** and which inject into the **local network** at a single point of **injection**;”

### SYSTEM OPERATOR CONCERNS

13. The system operator has a concern that the revised definitions could impact on its abilities to meet the PPOs and the dispatch objective. The system operator has therefore requested that a new rule be included in section III of part C. The proposal is to add a new rule 4.6 to section III of part C, and renumber the existing rule 4.6 as 4.7. The new rule 4.6 of section III of part C is:

#### **“4.6 Further rule regarding provision of information for embedded generation output**

If the **system operator** reasonably considers it necessary to assist the **system operator** in planning to comply and complying with the **principal performance obligations** and achieving the **dispatch objective**, the **system operator** may apply to **Board** to require an **embedded generator** to provide information

regarding the intended output of a group of **embedded generating stations** which total greater than 10MW in capacity. If the **Board** approves the **system operator's** request, then such information must be provided to the **system operator** by the relevant **embedded generator** in a form and manner agreed with the **Board**."

The Commission agrees with this proposal suggested by the system operator.

## CONSIDERATION OF RULE CHANGE AGAINST PRINCIPAL OBJECTIVE

14. The principal objective of the Commission is to "ensure that electricity is generated, conveyed, and supplied to all classes of consumers in an efficient, fair, reliable, and environmentally sustainable manner."

The Commission considers the proposed rule changes are consistent with its principal objective. In particular, it notes the proposed amendments to the definition of "generating station" and "embedded generating station" would improve the efficiency and fairness of the generation of electricity by:

- a) Allowing stations of one unit to be included in the definition of generating station;
- b) Allowing stations which are not offered to be included in the definition of generating station;
- c) Providing more certainty to market participants as to the interpretation of the definitions, and therefore decrease the likelihood that breaches be alleged against participants as a result of a misunderstanding of the rules;
- d) Enabling small embedded generating stations to operate in a manner consistent with their historic operation, while still providing for offers from large embedded generators to be provided to the system operator; and
- e) Enabling the system operator, with the Board's approval, to require groups of embedded generating stations which together total greater than 10 MW to provide it with information about their intended output.

The Electricity Commission also invites comments from market participants about the extent to which they consider these proposed rule changes meet the Commission's principal objective.

## CONCLUSION

15. In summary, the recommended amendments to the Rules are to:

- a) amend the definition of "generating station" from:

"**generating station**" means a group of two or more **generating units** that are physically connected to the **grid** or to a **local network** and which are combined and offered at a single point of **injection**, or are agreed by the **system operator** to be a **generating station** for the purposes of security, scheduling and dispatch;"

to

“**generating station**” means one or more **generating units** that are physically connected to the **grid** or to a **local network** and which inject into the **grid** or **local network** (as the case may be) at a single point of **injection**;

- b) amend the definition of “embedded generating station” from:

“**embedded generating station**” means one or more **embedded generating units** that are directly connected to a **local network**”

to:

“**embedded generating station**” means one or more **generating units** that are physically connected to a **local network** and which inject into the **local network** at a single point of **injection**;

- c) add a new rule 4.6 to section III of part C, and renumber the existing rule 4.6 as 4.7. The new rule 4.6 of section III of part C is:

**“4.6 Further rule regarding provision of information for embedded generation output**

If the **system operator** reasonably considers it necessary to assist the **system operator** in planning to comply and complying with the **principal performance obligations** and achieving the **dispatch objective**, the **system operator** may apply to **Board** to require an **embedded generator** to provide information regarding the intended output of a group of **embedded generating stations** which total greater than 10MW in capacity. If the **Board** approves the **system operator’s** request, then such information must be provided to the **system operator** by the relevant **embedded generator** in a form and manner agreed with the **Board**.”