

Appendix 2: Assessment of Proposed AUFLS Relief Rule under section 172F(1) of the Act

Note: The Electricity Commission's practice is to provide this assessment in the form in which it appeared in the Commission's consultation document. References to "preceding material" or "appendices" are references to material or appendices in the Commission's consultation document published on 14 November 2008 titled "Arrangements for Rolling Outages - Consultation Paper". To the extent that changes are made following that consultation (whether in response to the submissions or otherwise) those changes will be indicated by footnotes.

Background

- 1 The arrangements set out in the existing Security Regulations and draft SOSOP had implications for certain existing grid emergency obligations under part C of the Rules relating to AUFLS. Accordingly, to ensure that the Security Regulations could work efficiently a minor change to the AUFLS rule was recommended. This new AUFLS rule was made under the urgency provisions of the Act, and was approved by the Minister on 8 September 2008. The Commission must, within six months, make a recommendation to the Minister on whether or not the Rule should be revoked, replaced or amended. Before making its recommendation the Commission must prepare a statement of proposal and consult with affected parties.
- 2 The Commission has reviewed the AUFLS rule made under urgency and formed its views on the most appropriate rule in light of that review, as described in this consultation paper. This section is the Statement of Proposal required under the Act. It draws on the material set out in the preceding sections and in the Appendices, and should be read in conjunction with those.
- 3 This statement relates only to the AUFLS rule. The reader is referred to Section 11 of this paper for the Statement of Proposal relating to the Amended Security Regulations included as part of this consultation package.

Objectives

- 4 The overall objective is to put in place a set of contingency arrangements that enable the Commission to call for rolling outages as a last resort to ensure a balance between supply and demand.
- 5 Within this overall objective, the Commission's objective for AUFLS arrangements during a supply shortage situation (ie when rolling outages are called) are that the arrangements should:
 - a be consistent with the Commission's objective of ensuring that the risks relating to security of supply are properly and efficiently managed;
 - b enable orderly and efficient operation of the proposed arrangements for rolling outages;

- c not adversely affect the robustness of grid emergency arrangements under part C of the Rules;
- d ensure that participants and the system operator can clearly and accurately ascertain the AUFLS obligations that apply to each participant at all times during rolling outages; and
- e enable costs to the economy as a whole to be minimised.

The Commission's proposal

Summary of the Proposal

- 6 The Commission's Proposal is that the AUFLS rule should be retained, but has identified a set of amendments, relatively minor in nature, that would improve the rule, in particular to enable the system operator to specify the extent to which the AUFLS obligations continue to apply (if at all). The Commission therefore proposes to recommend to the Minister that the AUFLS rule be amended.
- 7 The amendments have the effect of better achieving the Commission's objective regarding AUFLS obligations during rolling outage situations.
- 8 The reader is referred to Section 9 of this paper for a more detailed description of the proposed AUFLS rule, and to the rule itself set out in Appendix 2¹.

Benefits and costs of the Proposal

- 9 Potential overlaps between the Security Regulations and the obligation to provide AUFLS mean that those feeders that would probably best meet the criteria for being scheduled for disconnection first in the event of rolling outages, are also likely to be those tagged as AUFLS blocks. To simultaneously meet the existing AUFLS obligations and the requirements of the regulations, distributors would have needed to apply rolling outages to non-AUFLS feeders.
- 10 It was recognised that this could result in higher priority load being interrupted under the rolling outage arrangements than would otherwise be required, with a consequential increase in costs to the economy as a whole.
- 11 The system operator agreed that this would not always be a sensible outcome, as there are certain circumstances (i.e. grid configuration, HVDC flow, load/generation pattern) where one or both AUFLS blocks may not be needed in some geographic areas. The system operator considered that, once a direction and savings target had been issued, it would be possible to establish (for each trading period and region) whether the requirements for one or both AUFLS blocks could be relaxed.

¹ This is Appendix 7

- 12 Accordingly the Amended AUFLS rule enables AUFLS providers (distributors and direct-connect customers in the North Island and the grid owner in the South Island) temporary relief from the AUFLS obligations in full or in part in circumstances specified by the system operator.
- 13 Thus the benefit of the AUFLS rule is that it avoids higher priority load being unnecessarily interrupted under the rolling outage arrangements, with a consequential reduction in costs to the economy as a whole.
- 14 The Commission acknowledges that there are costs associated with the Amended AUFLS Rule:
- the cost of the system operator regularly assessing which, if any, AUFLS blocks are not required for trading periods during which there is a direction from the Commission to implement rolling outages;
 - the cost of the system operator notifying participants of its assessment;
 - the cost of AUFLS providers receiving the system operator's notification and acting on it.
- 15 In order to assess the costs and benefits of the Proposal, it is necessary to establish a counter-factual against which to make the assessment, and to identify the reasonably practicable options for comparison. An assessment of the costs and benefits of the Proposal and that of the reasonably practicable options, is set out in [the assessment section beginning at paragraph 21].

Other reasonably practicable options

- 16 The Commission considers there are two reasonably practicable alternatives to the proposed Amended AUFLS rule:
- **Status Quo:** the AUFLS rule made under urgency for winter 2008 is retained unamended.
 - **Ad hoc management:** the AUFLS rule made under urgency for winter 2008 is revoked, and industry participants would instead be expected to manage any issues in the manner they each consider appropriate should rolling outages be called.
- 17 Two other options are included for completeness, however, the Commission does not consider either to be reasonably practicable.
- **Board Exemption:** the AUFLS rule made under urgency for winter 2008 is revoked, and AUFLS obligations during rolling outages are addressed using the exemption mechanism provided for in the Electricity Governance Regulations.
 - **System Operator Dispensation:** the AUFLS rule made under urgency for winter 2008 is revoked, and AUFLS obligations during rolling outages are addressed using the dispensation regime provided for in part C.

- 18 The reader is referred to Section 7.3 of this paper for a description of these possible options, together with a commentary on why the Commission considers them to be reasonably practicable or otherwise.
- 19 As the AUFLS rule was made under urgency, the nature of the Commission's recommendation needs to be one of the following: confirm, revoke, replace or amend. These map to the Proposal and the reasonably practicable options as follows:

	Description	Effect
Proposal	Retain AUFLS rule, but with enhancements	Amend
Status Quo	Retain AUFLS rule unamended	Confirm
Ad Hoc Management	Remove AUFLS rule and rely on participants making their own arrangements	Revoke

- 20 Although the redrafting of the AUFLS Rule appears substantial, the Commission considers that it is designed to achieve the same effect as that put in place for winter 2008. Accordingly the Commission considers it is proposing to amend rather than replace the existing AUFLS rule.

Assessment of the Proposal and the reasonably practicable options

Introduction

- 21 The benefits and the costs of each option need to be assessed against a counter-factual. Typically the "status quo" is used as the counter-factual in such assessments. In this case, the "status quo" is the AUFLS rule passed under urgency for winter 2008.
- 22 Because the counterfactual is a reasonably practicable option, the existing AUFLS rule was made under urgency, and for ease of comparison, the assessment of costs and benefits has been structured as follows:
- an assessment of the Proposal against the Status Quo option - Amend versus Confirm;
 - an assessment of the Status Quo option against Ad Hoc Management - Confirm versus Revoke.
- 23 The assessment draws on the discussion in the earlier sections of this paper, and should be read in conjunction with those.

Assessment of the Proposal against the Status Quo

- 24 The nature of the proposed enhancements is that the Proposal would better meet the objective of the rule, and this is discussed below.
- 25 The Commission considers there is no material difference in costs or benefits between the Proposal and the Status Quo. However, because the Proposal better meets the objective, but with no incremental cost, it considers that the Proposal has a marginally greater net benefit than the Status Quo.

Assessment of the Status Quo against Ad Hoc management

- 26 The AUFLS rule (the Status Quo) enables AUFLS providers (distributors and direct-connect customers in the North Island and the grid owner in the South Island) temporary relief from the AUFLS obligations in full or in part in circumstances specified by the system operator.
- 27 Thus the benefit of the AUFLS Rule is that it avoids higher priority load being unnecessarily interrupted under the rolling outage arrangements, with a consequential reduction in costs to the economy as a whole.
- 28 The Commission acknowledges that there are costs associated with the Status Quo:
- the cost of the system operator regularly assessing which, if any, AUFLS blocks are not required for trading periods during which there is a direction from the Commission to implement rolling outages;
 - the cost of the system operator notifying participants of its assessment; and
 - the cost of AUFLS providers receiving the system operator's notification and acting on it.
- 29 The Commission notes that the system operator has the systems in place to facilitate such assessments and for notifying participants, as part of its day to day operation of the system. Similarly, participants have systems in place to receive such notices. Accordingly, the Commission considers that the incremental costs relate to the system operator undertaking the assessment and participants acting upon it.
- 30 The Commission considers that these costs are outweighed by the benefits of avoiding higher priority load being unnecessarily interrupted under the rolling outage arrangements.

Overall assessment

- 31 The Commission considers that this assessment of the Proposal and the reasonably practicable options demonstrates that:
- the Proposal has a marginally greater net benefit than the Status Quo; and

- the Status Quo has a greater net benefit than Ad Hoc Management.

32 Accordingly, the Commission considers that the Proposal has the highest net benefit.

Extent to which the objectives are met

33 The objectives are set out in [paragraphs 4 to 5] above, and the Commission's assessment of the extent to which the Proposal and each reasonably practicable option meets the objectives is set out in the following table.

	Assessment
<p>Proposal Retain AUFLS Rule, but with amendments</p> <p>Amend</p>	<p>Meets all aspects of the objectives as set out in [paragraphs 4 to 5] of this paper.</p>
<p>Status Quo Retain AUFLS Rule unamended</p> <p>Confirm</p>	<p>Meets all aspects of the objectives, however, drawing on the analysis of the Status Quo in paragraphs 7.3.1 to 7.3.2:</p> <ul style="list-style-type: none"> • the drafting reduces the extent to which it meets the following objectives: <ul style="list-style-type: none"> (c) not adversely affect the robustness of grid emergency arrangements under part C of the Rules (d) ensure that participants and the system operator can clearly and accurately ascertain the AUFLS obligations that apply to each participant at all times during rolling outages
<p>Ad Hoc Management Remove rule and rely on participants making their own arrangements</p> <p>Revoke</p>	<p>Meets all of the objectives, at least to some degree, however:</p> <ul style="list-style-type: none"> • the absence of relief from AUFLS obligations in defined circumstances significantly reduces the extent to which it meets the following objectives: <ul style="list-style-type: none"> (b) enable orderly and efficient operation of the proposed arrangements for rolling outages (e) enable costs to the economy as a whole to be minimised

Assessment against Act and GPS objectives

- 34 Under section 172X of the Act, in formulating recommendations for electricity governance rules, the Commission must give effect to its principal objectives and specific outcomes, and its GPS objectives and outcomes.
- 35 The Commission considers that the Amended AUFLS Rule (if promulgated) would give effect to the relevant objectives and outcomes. Its assessment is set out in the second table of Appendix 5.²

Statement of reasons

- 36 The Commission considers that the Proposal is the most likely option to achieve the overall objective of putting in place contingency arrangements to provide for the scheduling of rolling outages in the extreme event that blackouts are required. It considers that the Proposal meets the objectives as set out in [paragraphs 4 to 5] above, and does so to a greater extent than either of the reasonably practicable options identified.
- 37 The Commission considers that the Proposal gives effect to its overall objectives and outcomes.
- 38 While the assessment of the costs and benefits is on a qualitative basis, the Commission is satisfied that there are net benefits from the Proposal compared with either the Status Quo or Ad Hoc Management.

² This is Appendix 4.