

### 3. Analysis

#### 3.1 Statement of proposal

3.1.1 Sections 172E and 172F of the 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.<sup>6</sup>

3.1.2 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.

#### 3.2 The Commission's proposal

3.2.1 The proposal is to replace the existing policy statement set out in schedule C4, in its entirety, with the draft policy statement provided by the System Operator on 31 March 2009, but with minor additional changes proposed by the Commission in consultation with the System Operator. 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.

#### Changes proposed by the System Operator

3.2.2 The draft policy statement is attached as Appendix 1 to this paper. It is marked up as compared to the current policy statement, showing the changes proposed by the System Operator and minor drafting corrections proposed by the Commission. Parties should read the draft policy statement carefully for further details of the proposed rule amendment. The Commission considers the following to be the key differences between the existing policy statement (schedule C4) and the draft attached.

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<sup>6</sup> 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.

Table 1: Key changes contained in the draft policy statement

Clause	Description of and reason for change
22.1	Clarification that the System Operator can implement temporary security constraints without giving two weeks' notice. The System Operator agreed to propose this change as part of a settlement agreement arising from an investigation into an alleged breach of this rule.
22.4 and 22.4.4	Upon introduction of the new market systems, the System Operator will publish temporary security constraints applied to schedules only where those constraints have reached the 'constraint percentage threshold' <sup>7</sup> .  Consistent with the need to determine the percentage within which the constraint is binding prior to publication, the drafting has been changed to clarify that publication will now be from the commencement time of preparation of the relevant schedule rather than from the application of the constraint to the database.
22.4.2, 22.6 and 30.3	The System Operator will provide grid asset outage information used in the preparation of market schedules and will no longer use, where the constraint relates to an outage, the circuit name, with a limit of zero (branch constraint information) to do so.
30.1	The System Operator will no longer publish transmission capability limits, as these are now available by the Grid Owner pursuant to provisions under part F of the Rules.
33	Allow for the System Operator to reduce the reserve required between 0-100% when there are insufficient generation and reserve offers.
36.1 and 36.2	Eliminate the conditions of HVDC link north transfer situations under which the System Operator will procure over frequency reserves, giving the System Operator more flexibility to determine when it will procure the service and more accurately reflecting operational procedures used in the dispatch of over frequency reserves.
65	A grid emergency notice will be issued if the System Operator considers a grid reconfiguration is required to mitigate the situation.
67	Formal notices will no longer be sent to every participant, only to those the System Operator believes may be able to assist in mitigating a grid emergency.
74	Restoration of load following a loss of supply has been added as an event in which grid emergency might arise.

<sup>7</sup> The constraint percentage threshold is defined in clause 163 of the policy statement.

Clause	Description of and reason for change
74	The condition where the System Operator “assesses the probability” of an event occurring has been changed to one where it “reasonably believes” it might occur so there is no over-representation of the sophistication of the processes it uses in its decision making.
75-78	Demand allocation notices will no longer be sent separately but included in the relevant formal notice.
87	The System Operator has committed to beginning the preparation of a new security schedule at least once every two hours. It continues to commit to producing four security schedules a day.
92A	The System Operator has committed to provide the information system a week-ahead dispatch schedule once it completes one.
111, 122, 130 and 134	Various clauses reworded to remove obligations on asset owners where those obligations are stated in part C of the Rules (the policy statement should contain only commitments made by the System Operator). For example, the ability of asset owners to request a dispensation or an equivalence arrangement in the first sentence of clause 131 already exists under rule 7.1 of section III of part C of the Rules.
188	Change the length of the week-ahead dispatch schedule to contain results for the next 6 days (instead of 7 days ) because the extra day (current day) is already published both in the pre-dispatch and security schedules.

## Additional changes proposed at this time

- 3.2.3 In addition to the System Operator’s proposed changes to the policy statement, the Commission proposes further minor changes, which did not appear in the draft submitted by the System Operator including:
- (a) moving clauses 23 and 24 to the beginning of the Security Constraints section (before clause 19), as they explain when clauses 19-22 and 25-30 apply;
  - (b) deleting clause 167, which defines "exempt distributor load", as this term is not used anywhere in the policy statement, and the definition in itself is potentially misleading; and
  - (c) making minor drafting corrections to some clauses.
- 3.2.4 The Commission has consulted the System Operator and it endorses these additional minor changes, which are added alongside the system operator changes in Appendix 1 and highlighted as modifications made by the Commission.

## Potential future changes for market system implementation

- 3.2.5 The System Operator has also advised the Commission that the introduction of the new market systems over the coming months might require further adjustments to the policy statement in the future.
- 3.2.6 For example, the System Operator has already proposed changes to the constraint management section of the policy statement (refer to the changes to clause 22.4) for application after the new market system is introduced, based on what the System Operator has designed the new market system to deliver. It has advised the Commission that, whilst significant time has been spent checking that the new market system meets the requirements of the policy statement and Rules, there is the potential (as with any new IT system) for minor differences to be identified as the implementation progresses. The System Operator considers that it is taking all reasonable and prudent steps to minimise these differences.
- 3.2.7 The current policy statement requirements relating to the management of constraints after the introduction of SFT (the Simultaneous Feasibility Testing module of the new market systems), are, however, more likely to be the subject of System Operator requested changes in the future. As has been discussed with the industry, the System Operator will consult widely with participants on the application of SFT, and this may result in changes to the policy statement being requested by the System Operator during the term of the draft policy statement.
- 3.2.8 The Commission now also understands that the new market systems do not have the functionality to automatically send the input information used to calculate the standby residual shortfall to the information system service provider, as required under clause 61 of the existing policy statement. This lack of market system functionality may compromise the System Operator's ability to meet its obligations, and the System Operator is exploring the issues and options associated with this situation.
- 3.2.9 This and any other such matters will be addressed by the System Operator and the Commission on a case by case basis as they emerge. The approach adopted in each case may involve some or all of the following: proposing further changes to the policy statement; temporary workarounds; and applications for exemptions.

## 3.3 Commission's objectives

- 3.3.1 The Commission's objectives for the proposed rule change is to replace the existing schedule C4 with a new schedule C4 that:

- (a) sets out the policy and means considered most appropriate for the System Operator to follow to deliver common quality and orderly system operation during the period 1 September 2009 to 31 August 2010; and
- (b) meets the requirements of the contents of the draft policy statement, as set out in rules 8 and 10.2 in section II of part C of the Rules.

### 3.4 Other reasonably practicable options

#### Development of options

- 3.4.1 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. The objective of the proposed rule change is set out in paragraph 3.3.1 above.
- 3.4.2 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).
- 3.4.3 The Commission has prepared the assessment below on the basis that the draft policy statement is one integrated package of changes.

#### Assessment

- 3.4.4 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.
- 3.4.5 The assessment which follows is largely based on information prepared and provided by the System Operator as part of the material accompanying the draft policy statement.

#### Benefits and costs

- 3.4.6 The assessment of the benefits/costs associated with the draft policy statement is set out relative to a counterfactual of retaining the existing policy statement, which is also considered to be the only reasonably practicable alternative for the purposes of this statement of proposal.

- 3.4.7 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. Submitters are invited to provide quantitative and qualitative information on the costs and benefits as part of their submissions on the proposal.
- 3.4.8 The System Operator provided the Commission with its view of the benefits and costs associated with the changes proposed in the draft policy statement. The Commission has considered this information and has summarised its view of the benefits and costs in Table 2 below.

Table 2: Benefits and costs of changes in new draft

Change		Benefits and costs
1. (clause 22.1)	Clarification that the System Operator can implement temporary security constraints without giving two weeks' notice. The System Operator agreed to propose this change as part of a settlement agreement arising from an investigation into an alleged breach of this rule.	Increases clarity/transparency as it more accurately records the System Operator's current practice. No material costs have been identified.
2. (clauses 22.4 and 22.4.4)	Upon introduction of the new market systems, the System Operator will publish temporary security constraints applied to schedules only where those constraints have reached the 'constraint percentage threshold'. As the calculation of the threshold test can only be determined after a schedule has been completed, the drafting is now changed to clarify that publication will now be from the commencement time of preparation of the relevant schedule rather than from the application of the constraint to the database.	The obvious benefits of the schedule-based constraint notification and the filtering effect of notifying constraints (to exclude the constraints that have no effect or are not close to having an effect in schedule results) are to ensure that participants interpret the information provided according to its relevance and impact.  To mitigate the risk to participants, the system operator could raise the constraint percentage threshold to 100% (to capture all constraints) if participants required additional constraint information.
3. (clauses 22.4.2, 22.6 and 30.3)	The System Operator will provide grid asset outage information used in the preparation of market schedules under the new market systems and no longer use, where the constraint relates to an outage, the circuit name, with a limit of zero (branch constraint information) to do so.	More information is provided about outages under the new market systems. The cost of doing so is absorbed in the capital cost of the new market systems.

Change		Benefits and costs
4. (clause 30.1)	The System Operator will no longer publish transmission capability limits.	Reduces duplication and possible error, as this information is already provided to participants by the grid owner via the Electricity Commission.
5. (clause 33)	Allowance for the System Operator to reduce the reserve required between 0-100% when there are insufficient generation and reserve offers.	Could improve reserve cover when system conditions are tight. The cost of software to achieve this is approximately \$250K, and the expenditure is being considered as a separate project.
6. (clauses 36.1 and 36.2)	Elimination of the conditions of HVDC link north transfer situations under which the System Operator will procure over frequency reserves, leaving the System Operator freer to determine the situations under which it will procure the service and more accurately reflecting operational procedures used in the dispatch of over frequency reserves.	Reduces potential for System Operator to be caught by own procurement rules (e.g. procuring when it doesn't need to or not procuring when it should). It might also increase providers' uncertainty about being dispatched but this risk is mitigated by the System Operator's intention to make changes to the procurement plan that will signal its procurement intentions.
7. (clause 65)	A grid emergency notice will be issued if the System Operator considers a grid reconfiguration is required to mitigate the situation.	Increases clarity/transparency as it more accurately records the System Operator's current practice. No material costs have been identified.
8. (clause 67)	Formal notices will no longer go to every participant, only to those the System Operator believes may be able to assist in mitigating a grid emergency.	No material benefit arises from this change. The reduction in notices may reduce the administrative work in receiving notices that are not applicable to the recipient but may increase cost of system events if the System Operator omits to inform participants that might be able to mitigate an emergency.
9. (clause 74)	Restoration of load following a loss of supply has been added as an event in which grid emergency might arise.	Increases clarity/transparency as it more accurately records the System Operator's current practice. No material costs have been identified.
10. (clause 74)	The condition where the System Operator "assesses the probability" of an event occurring has been changed to one where it "reasonably believes" it might occur, to remove the possibility of over-representing the sophistication of the processes it uses in its decision making.	Increases clarity/transparency as it more accurately records the System Operator's current practice. No material costs have been identified.

Change		Benefits and costs
11. (clauses 75 - 78)	Demand allocation notices will no longer be sent separately.	Simplifies process for issuing formal notices, potentially reducing costs.
12. (clause 87)	The System Operator has committed to beginning the preparation of a new security schedule at least once every two hours. It continues to commit to producing four security schedules a day.	Signals that the System Operator may produce and publish more information for the benefit of participants following the implementation of the new market systems. The cost of doing so is absorbed in the capital cost of the new market systems.
13. (clause 92A)	The System Operator has committed to provide, to the information system, a week-ahead dispatch schedule once it completes one.	Signals that the System Operator may produce and publish more information for the benefit of participants following the implementation of the new market systems. The cost of doing so is absorbed in the capital cost of the new market systems.
14. (clauses 111, 122, 130 and 134)	Various clauses reworded to remove obligations on asset owners (stated elsewhere in the Rules), as the policy statement should only contain System Operator commitments and obligations.	Increases clarity/transparency as it more accurately records the System Operator's current practice. No material costs have been identified.
15. (clause 188)	Clarification that the week-ahead dispatch schedule contains results for the next six days (not seven) as the extra day (current day) is already published both in the pre-dispatch and security schedules.	Increases clarity/transparency as it more accurately records the System Operator's intentions. No material costs have been identified.

3.4.9 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. However, the Commission welcomes submissions on its view of the benefits and costs identified above.

## Assessment against objectives

3.4.10 The draft policy statement, intended to replace schedule C4, better meets:

- (a) the objective of setting out the most appropriate policies and means for the System Operator to deliver common quality and orderly system operation

during the period 1 September 2009 to 31 August 2010, as the existing policy statement, in the areas outlined in Table 2 above, no longer contains such policies and means to the same extent as the proposal; and

- (b) the objective of meeting the requirements of the contents of the draft policy statement, as set out in rules 8 and 10.2 of section II of part C of the Rules.

### 3.5 Statement of reasons

- 3.5.1 The reasons for the proposal are to ensure that schedule C4 (the policy statement) contains the policies and procedures the System Operator now considers most appropriate in order to comply with the PPOs and other Rules during the twelve-month period beginning 1 September 2009.
- 3.5.2 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).
- 3.5.3 The Commission considers that the objective cannot be achieved by anything other than a rule change, as it is appropriate that these matters be set out in the policy statement, which in turn requires a rule change to revoke the existing policy statement and replace it with that now proposed.

### 3.6 Assessment against objectives and outcomes

- 3.6.1 Under section 172X of the Act, in formulating recommendations for rules, the Commission must give effect to its principal objectives and specific outcomes, and its GPS objectives and outcomes.
- 3.6.2 The Commission's assessment against the relevant objectives and outcomes is set out in Appendix 3 to this consultation paper.

### 3.7 Assessment of all options

- 3.7.1 The Commission's view is that the assessment of the benefits and costs of the proposal relative to the counterfactual of 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, in particular on the costs and benefits associated with the proposal.