



# MAJOR ELECTRICITY USERS' GROUP

22 March 2011

Lisa Du Fall  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Lisa

## Consultation paper – Capacity Offer for Whirinaki

1. This is a submission by the Major Electricity Users' Group on the Electricity Authority consultation paper "Capacity Offer for Whirinaki" dated 1<sup>st</sup> March 2011<sup>1</sup>.
2. The Authority propose<sup>2</sup> "to reduce Whirinaki's capacity offer to the plant's SRMC once it is confirmed that sufficient capacity will be available to the System Operator to meet demand". MEUG do not support this proposal. Instead MEUG support the immediate change to SRMC during Normal Security Phase, ie option 2.
3. MEUG members have been consulted in the preparation of this submission including a discussion at the last MEUG Executive Committee meeting held 16<sup>th</sup> March. Some MEUG members are making separate submissions. Responses to the questions in the consultation paper follow:

Question	MEUG response
Q1. Do you agree with the Authority's view that the correct evaluation for changing the Whirinaki capacity offer is against the selected Electricity Commission's objectives and specific outcomes?	Agree the Authority must, pursuant to s.127 of the Electricity Industry Act 2010; act as if the Act had not been passed. However the Authority cannot respond exactly the same as the Electricity Commission because: <ul style="list-style-type: none"><li>• The Commission had the option of procuring reserves. The Authority does not; and</li><li>• Whirinaki is to be sold subject to conditions<sup>3</sup> requiring the plant remain in an operating</li></ul>

<sup>1</sup> Refer <http://www.ea.govt.nz/our-work/consultations/sos/whirinaki-capacity-offer/>

<sup>2</sup> Consultation paper, Executive Summary, paragraph 4

<sup>3</sup> Refer MED [http://www.med.govt.nz/templates/Page\\_45577.aspx](http://www.med.govt.nz/templates/Page_45577.aspx), Whirinaki Registration of Interest

Question	MEUG response
	condition in New Zealand for at least 3 years after sale and can only be relocated during the summer of 2011/12 or 2012/13.
Q2. Do you have alternative options for the capacity offer that should be considered?	No.
Q3. Do you agree with the rationale for option 1? If not, why not?	<p>This is an option that should be considered.</p> <p>However any rationale supporting a high fixed cost offer for Whirinaki during Normal Security Phase in order not to undermine private sector and SOE generator investment (and upgrade/replacement older slower starting thermal) has been eliminated by the government deciding to get out of securing reserves and selling Whirinaki as noted in response to question 1 above.</p>
Q4. Do you agree with the rationale for option 2? If not, why not?	<p>This is an option that should be considered.</p> <p>Given the downsides of options 1 and 3 as explained in responses to questions 3 and 5 respectively; option 2 is the preferred approach.</p>
Q5. Do you agree with the rationale for option 3? If not, why not?	<p>This is an option that should be considered.</p> <p>However the Authority should not expect any material information will be forthcoming to support a view that high offers are needed because:</p> <ul style="list-style-type: none"> <li>• We understand that, apart from MEUG, there were no other parties that made submissions to the System Operator on the submitted the draft Annual Security Assessment (ASA). As the consultation paper notes, there are no concerns from the analysis in the draft ASA.</li> <li>• There were no material concerns arising from the work of the National Winter Group in late 2010 for peak supply over winter 2011.</li> <li>• Actual investment behaviour (eg Stratford 2X100 MW plant and Bream Bay 9 MW Diesel Peaking Plant<sup>4</sup>) points to sufficient incentive already for new, lower cost, newer technology and faster starting plant to be built. In addition the conditions of sale for Whirinaki Power Station ensure 150 MW will be available over the next three winters.</li> </ul>

<sup>4</sup> Trustpower, Infratil Investor Day, March 2011, slide 10. Bream bay to be completed July 2011, refer <http://www.trustpower.co.nz/index.php?section=360>.

Question	MEUG response
	<p>There are two risks with pursuing option 3:</p> <ul style="list-style-type: none"> <li>An opportunity is created for special plea bargaining by generators that shadow price below \$5,000/MWh and substitute for Whirinaki even though the SRMC of that plant may be higher than that for Whirinaki. Generators that benefit from the current Whirinaki offer therefore have an incentive to obfuscate and delay whereas they have already had an opportunity through the ASA and National Winter Group consultation rounds to demonstrate any potential risks to security.</li> <li>Every day the Authority fails to reduce the offer to SRMC there is a risk higher cost and higher priced generation will occur than is necessary. MEUG suggests such an event occurred on 17<sup>th</sup> March. Had Whirinaki been offered at SRMC that day then spot prices would <u>not</u> have reached an average daily price of \$631/MWh at Otahuhu. If Whirinaki had been offered at, for example, \$500/MWh and set the clearing price instead of the \$2,700 to \$5,000/MWh actual final prices for seven of the trading periods that day, then the average daily price would have been \$179/MWh.</li> </ul> <p>The very high spot prices during those seven trading periods resulted in several manufacturers curtailing production. Had spot prices (and associated five minute price trends closely monitored by TOU consumers) peaked at below \$200/MWh then that lost output may not have occurred.</p>
<p>Q6. Do you agree that option 3 should be the preferred option because there will be sufficient capacity made available to the market if the Whirinaki offer is changed to the SRMC of the plant?</p>	<p>No for the reasons set out in response to questions 3, 4 and 5 above.</p> <p>Option 2 is preferred.</p>

4. In conclusion MEUG recommend the Authority immediately change the Whirinaki offer during all Emergency Phases to be at SRMC.

Yours sincerely



Ralph Matthes  
Executive Director