



23 August 2024

Electricity Authority

By email: OperationsConsult@ea.govt.nz

Consultation Paper: IR cost allocation to groups of generating units

Meridian Energy Limited (**Meridian**) appreciates the opportunity to comment on the Electricity Authority's (**Authority**) consultation paper 'Instantaneous reserve cost allocation to groups of generating units'.

We agree with the objectives of the proposed amendment. However, we note that there is further potential to improve the allocation methodology for reserve costs beyond the limited scope of the current proposal. Such changes may include:

- Allocating costs to groups of generation at different connection points where they form a single Contingent Event (CE) risk (a situation which exists within current system dynamics); and
- Updating the approach to allocating reserve costs when reserves are transferred between islands.

These changes could further improve the efficiency of Instantaneous Reserve (IR) cost allocation. Meridian would support consideration by the Authority of wider changes to the IR cost allocation methodology in the future.

Our responses to the Authority's specific consultation questions are included as Annex One.

This submission is not confidential and can be published in full. Please contact me if you would like to further discuss any of the matters discussed in our submission.

Nāku noa, nā

Matt Hall

Manager Regulatory Affairs
Meridian Energy

Annex One: Meridian responses to the Authority’s specific consultation questions

<p>Q1. Do you agree with the description of the issues identified by the Authority? If not, why not?</p>	<p>Meridian supports the underlying principle of ‘causer pays’ in the allocation of IR costs. To the extent possible, there should be a level playing field in the allocation of cost to those parties causing system risk. We therefore agree with the problem the Authority has identified with current arrangements not allocating costs to groups of generating units despite those groups giving rise to CE risks.</p> <p>We note that, while reserve costs relating to the transfer of electricity across the HVDC link are allocated to the Grid Owner, ultimately these costs are passed on to grid customers. As such, the Grid Owner faces little or no incentive to avoid these costs.</p>
<p>Q.2 Do you agree with the objectives of the proposed amendment? If not, why not?</p>	<p>We agree with the objectives of the proposed amendment. However, we note that there is further potential to improve the allocation methodology for reserve costs beyond the limited scope of the current proposal. Such matters may include allocating costs to groups of generation at different connection points (where they form a single CE risk) and updating the way that reserve costs are allocated while reserves are being transferred between islands.¹</p> <p>These changes could further improve the efficiency of IR cost allocation. Meridian would support consideration by the Authority of wider changes to the IR cost allocation methodology in the future.</p>
<p>Q3. Do you agree the benefits of the proposed amendment outweigh its costs?</p>	<p>We agree that, overall, the benefits of the proposal will outweigh the costs.</p>
<p>Q4. Do you think there are any other costs or benefits for the proposed amendment that have not been identified?</p>	<p>Meridian’s view is that the primary benefit of this proposed change is to ensure there is an incentive on investors in all types of plant – including plant comprised of groups of generating units – to consider and potentially mitigate the reserve costs they impose on the system. This will help to ensure a level playing field and will encourage efficient investment decisions.</p>

¹ Under current arrangements, the IR cost payers in the IR sending island still have to pay for additional IR procured even though the IR requirement is set in the receiving island. This is a deviation from the causer pays principle as the causer in the IR receiving island doesn’t pay for the additional IR. This can create a disincentive on parties that are IR providers and IR cost payers to make marginal IR available as the additional IR causes an increase in island availability cost.

<p>Q5. Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority’s statutory objective in section 15 of the Electricity Industry Act 2010.</p>	<p>The Authority notes that the variations it has identified would result in a greater set of causers of CE risks paying a share of IR costs.</p> <p>In particular, Meridian considers that the following variations are relevant to situations which currently exist on the system:</p> <ul style="list-style-type: none"> • Applying a single 60MW subcontractor to the total risk where a risk comprises one owner’s generation across more than one point of connection; and • Sharing a single 60MW subcontractor between the generation owners of a risk group comprising generation from more than one generation owner. <p>These variations are therefore likely to offer efficiency improvements beyond the current proposal. We acknowledge that there may be additional costs and complexities from pursuing these changes now, however, and that this may not be consistent with the Authority’s stated objective “to allow for a timely change that is targeted at the immediate issues.” Nevertheless, we would support further investigation of the above variations as part of a longer-term work programme.</p> <p>The option described in paragraph 4.42 of the consultation paper would not adapt to changing system conditions and, in our view, would not offer any advantages over the current proposal and therefore should not be investigated further.</p>
<p>Q6. Do you agree the Authority’s proposed amendment complies with section 32(1) of the Act?</p>	<p>Yes.</p>
<p>Q7. Do you have any comments on the drafting of the proposed amendment?</p>	<p>We have two suggested changes to the proposed drafting:</p> <ul style="list-style-type: none"> • Update clause 8.59A (5) to state that “the system operator may request from any participant information about electricity injected by <u>‘at risk generation’</u>, where that information is required to calculate allocations of availability costs under clause 8.59 <u>for that ‘at risk generation’</u>.” • Consider adding an additional subclause after clause 8.59A (5) which states that, where the system operator already holds the relevant electricity injection information (e.g. from SCADA data), they may, on agreement with the relevant participant, use this information rather

	than making an additional request to the participant.
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