National Market for Instantaneous Reserves Project

Decision: Allocation of IR charges for generating units holding dispensation

System Operator

Transpower New Zealand Limited

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Keeping the energy flowing

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IMPORTANT

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Background 4
The Options 5
Responses 5
Decision 5

BACKGROUND

In July 2016 Transpower's system operator published a discussion paper for comment on the topic of how non-compliant generators holding dispensations from the AOPO clause 8.19(1) or 8.19(3) should be charged Instantaneous Reserve procurement costs under clause 8.31 once the national market for instantaneous reserves has been implemented.

In the existing island-based market these costs are only ever calculated for a dispensated generator in the generator's island. However, under the NMIR there will be occasions when costs will be calculated for the same generator in the same trading period for both the North and South Islands.

This can happen because, under the NMIR, the post-event effects of the generator's dispensation can be felt in both islands. This is a real effect and the actual quantities of additional reserves procured will be influenced by the effect in both islands. The ability to identify these national effects is one outcome of the set of NMIR tool changes.

How often this (calculation of costs in both islands) will occur is dependent on power system conditions and is most likely in periods of high levels of DC transfer. There may be long periods of time when the calculation of costs in both islands will not occur; there may also be periods of time when this could occur in many trading periods for weeks or months at a time.

The Code does not explicitly provide for a situation where a dispensated generator causes additional reserve costs in both islands in the same trading period.

The Options

Two options were offered for consideration:

1. Charge the greater of the two island costs on the basis that the system operator procures a quantity of reserve to cover multiple binding risks that are not strictly cumulative.
2. Charge the sum of the two-island costs on the basis that the Code neither allows for nor precludes generators being charged multiple times.

Responses

Four responses were received with the majority preferring the adoption of option 1, charging the greater of the two-island costs on the basis that the system operator procures a quantity of reserve to cover multiple binding risks that are not strictly cumulative.

Responses received also proposed that a review of the parts of the Code relevant to this issue be undertaken noting that in its current form it is somewhat ambiguous.

Decision

Based on the feedback received and confirmation from the Electricity Authority non-compliant generators holding dispensations from the AOPO clause 8.19(1) or 8.19(3) will be charged Instantaneous Reserve procurement costs under clause 8.31 based on the greater of the two island costs once the national market for instantaneous reserves has been implemented.

The Electricity Authority have advised that they will be looking to include a review of the cost allocations under clause 8.31 of the code as part of the current WAG (soon to MDAG) led review of the instantaneous reserve event charge and cost allocation review.