

Fixed Price Frequency Keeping

SO Workshop - November 2008

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Purpose

- Parties were advised in October that we would not be accepting offers for fixed price frequency keeping as part of the 2008 tender round.
- This was to allow the System Operator the time to consider and assess the feasibility of fixed price options.
- Provide an update at the System Operator Workshop in November

Background

- Raised in drafting 2008 Procurement Plan
- Concerns with scale and variability of frequency keeping costs
- Creates considerable budgeting issues for payers
- Requested by FK service providers and payers to consider fixed price frequency keeping arrangements

Procurement Plan

- Fixed Price Frequency not an option with previous Procurement Plans
- Agreed to include fixed price arrangements in 2008 plan.
- Amendment was accepted by the Electricity Commission
- Approved by the Minister in October 2008

Ancillary Service Tendering

- In preparing the 2008 tender round:
 - FK providers indicated various types of offers
 - Relatively simple through to more complex:
 - Regular subcontracting
 - Splitting offers
 - Selected times of the year
- This raised a number of issues:
 - potential competition issues
 - operationalising complex subcontracting arrangements

Issues to be considered

- Need for providers to have subcontracting arrangements
- Impact of force majeure provisions
- Impact of procurement from selected contracted times
- Assessment criteria

Where to from here?

- Investigating alternative methods of smoothing/reducing frequency keeping costs
- Viable alternatives may include a “capped offer”
- Prioritise this work with other frequency keeping initiatives
- Industry views on priorities?
- If workable option – may tender during 2009.

Questions?

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