

February 2002

## **GOVERNMENT POLICY STATEMENT FURTHER DEVELOPMENT OF NEW ZEALAND'S ELECTRICITY INDUSTRY**

The Ministerial Inquiry into the Electricity Industry reported to the Minister of Energy on 12 June 2000.

A statement of Government policy was issued in December 2000 following consideration of the recommendations of the Inquiry. It supplanted previous statements of government policy on electricity.

Attachments to the statement deal with objectives and principles for the provision of transmission services, and management of electricity supply risk ('dry-year risk').

**This revised statement has been issued following a review of the way the electricity system functioned over the winter of 2001. Paragraph 15 of the December 2000 statement has been amended to require public disclosure of generator offers after 2 weeks (instead of 3 months).**

### **Government's policy objective for electricity**

- 1 The Government's overall objective is to ensure that electricity is delivered in an efficient, fair, reliable and environmentally sustainable manner to all classes of consumer.
- 2 To meet this objective, the Government favours industry solutions where possible, but is prepared to use regulatory solutions where necessary.
- 3 This Policy Statement sets out the Government's expectations for industry action and its views on governance matters.

### **New self-regulatory arrangements: Guiding Principles**

- 4 The Government wishes to see further evolution of self-regulatory arrangements.
- 5 The Government has established the following Guiding Principles for the evolution of these arrangements:

#### **Guiding Principles for the electricity industry**

The Government's overall objective is to ensure that electricity is delivered in an efficient, fair, reliable and environmentally sustainable manner to all classes of consumer. Industry arrangements should promote the satisfaction of consumers' electricity requirements in a manner which is least-cost to the economy as a whole and is consistent with sustainable development.

Consistent with this overall objective, the Government is seeking the following specific outcomes:

- a energy and other resources are used efficiently, and in particular, hydro spill is minimised;
- b risks relating to security of supply, in particular the risks of dry years and inadequate transmission and distribution security, are properly and efficiently managed;
- c the full costs of producing and transporting each additional unit of electricity are signalled so that investors and consumers can make decisions consistent with obtaining the most value from electricity;
- d delivered electricity costs and prices are subject to sustained downward pressure;
- e the quality of electricity services, and in particular trade-offs between quality and price, should as far as possible reflect customers' preferences;
- f transmission losses and constraints are signalled to ensure that overall costs to the economy, including the costs of insufficient competition in local regions, are minimised; and
- g greenhouse gas emissions are minimised.

To meet these objectives and outcomes, an Electricity Governance Board is to ensure that rules are developed as set out in this Government Policy Statement. The rules are to be consistent with these Guiding Principles. In particular, the rules are to:

- h promote enhanced competition wherever possible and, where it is not, seek outcomes that mirror as far as possible those that would apply in competitive markets;
- i facilitate and promote active demand-side participation;
- j ensure that the use of new electricity technologies and renewables, and distributed generation, is facilitated and that generators using these approaches do not face barriers; and
- k be consistent with government policies on climate change and energy efficiency.

Greenhouse gas emissions are to be minimised through these arrangements, in particular by minimising hydro spill, efficiently managing transmission losses and constraints, ensuring consistency with climate change and energy efficiency policies, promoting demand-side participation and facilitating new generation technologies and renewables.

The Electricity Governance Board should also ensure that:

- l services that are most efficiently provided on a common basis are provided at a quality and quantity, set through a process of collective agreement with participants, which enables those participants to make trade-offs between alternative levels of service and price;
- m the range of common services and mandatory rules is reduced over time where technological developments challenge the efficiency of ongoing compulsion;
- n the provision of services is contestable wherever possible;
- o rules and standards are robust and enforceable through a supervisory body that is neutral, separate from the body responsible for rule-making, and has sufficient power to monitor and enforce the rules (including fines for rule breaches);

- p where appropriate, efficient and effective alternative dispute resolution processes are provided;
- q processes by which rules are set and changed:
  - ◇ are transparent;
  - ◇ do not provide for or allow bias towards any party and, in particular, limit the potential for any party to amend rules in a manner which introduces bias inconsistent with these Guiding Principles; and
  - ◇ achieve a balance between providing certainty and the need to ensure that progress in setting and amending the rules meets the Government's expectations for rapid evolution of the market; and
- r the Commerce Act 1986 and all other relevant laws are observed.

## **New Electricity Governance Board**

6 A new governance structure with a single Electricity Governance Board ('the Governance Board') should be established. The new structure and Governance Board should replace the existing governance arrangements of NZEM<sup>1</sup>, MARIA<sup>2</sup> and MACQS<sup>3</sup>. The Governance Board will also have some additional responsibilities as set out in this statement.

### *Role and functions of the Governance Board*

7 The Governance Board should ensure that rules are developed in the areas listed in the following table. The rules will need to be consistent with the Guiding Principles.

#### **The Governance Board should ensure that rules, consistent with the Guiding Principles, are developed in the following areas:**

##### *Wholesale market*

- dispatch;
- pool rules;
- reconciliation;
- settlement;
- information disclosure covering:
  - ◇ spill from hydro dams;
  - ◇ aggregate hedge prices; and
  - ◇ release of offers by generators;

<sup>1</sup> New Zealand Electricity Market, the multilateral agreement under which most wholesale electricity is bought by retailers and sold by generators on a half-hourly basis.

<sup>2</sup> Metering and Reconciliation Information Agreement, is a set of rules around metering and reconciliation standards that allow electricity flows to be matched against contracts. It also contains profiling and switching rules that allow consumers to change retailers.

<sup>3</sup> The new Multilateral Agreement on Common Quality Standards, which transfers responsibility for common quality and real-time security to users of grid services.

### *Transmission*

- transmission pricing methodology<sup>4</sup>;
- minimum security standards;
- common quality and real-time security;
- system expansion and replacement;

### *Distribution*

- terms and conditions for connection of distributed generation to distribution lines;

### *Retail*

- consumer switching protocols;
- consumer complaints resolution system;<sup>5</sup>
- transition arrangements for consumers in the event of retailer insolvency;
- availability of pre-payment meters;

### *Governance*

- rule-making; and
- enforcement including alternative dispute resolution and an effective independent surveillance body.

8 The Governance Board should ensure that rules are developed in a timely manner. The rules and changes to them are to be determined after appropriate consultation.

9 Compliance with the rules will be compulsory for generators, distributors, retailers, directly connected end-users and Transpower, to the extent that they are applicable to these parties, and to the extent necessary to give effect to Government policy in this Government Policy Statement.

10 The Governance Board should also ensure that non-mandatory 'model' arrangements, consistent with the Guiding Principles, are developed in the following areas. These will then be available for consideration by distribution and retail companies in developing their own approaches.

### **The Governance Board should ensure that model arrangements, consistent with the Guiding Principles, are developed in the following areas:**

#### *Distribution*

- model Use of System agreements for distribution;
- model approaches to distribution pricing; and

#### *Retail*

- model domestic consumer contracts.

<sup>4</sup> The respective roles of Transpower's Board and the Electricity Governance Board in relation to transmission pricing methodology are spelt out in paragraph 23.

<sup>5</sup> The consumer complaints resolution arrangements are to cover distribution and retailing.

## *Constitution of the Governance Board*

11 The Government expects the industry to establish a constitution for the Governance Board reflecting the following principles:

### **Key design principles for the Governance Board's constitution**

- The Governance Board should comprise between five and nine members (including the chair).
- There must be an independent chairperson.
- The prime obligation of Governance Board members should be to develop and enforce rules consistent with the Guiding Principles; they must not act in the interests of individual participants.
- Governance Board members should demonstrate background and expertise to enable them as a group to give effect to the Guiding Principles. In particular, at least some members should be able to contribute expertise and experience in the following areas: consumer interests, distributed generation/renewables, energy efficiency/demand side management, generation, network management and transmission. All members should be aware of the interests of consumers.
- A majority of the Governance Board should be independent persons. (Any director, employee or significant shareholder of the supply side of the industry does not meet the test of independence.)
- The independent members of the Governance Board should be appointed after consultation with the Minister of Energy. **Y**

## **Wholesale market**

### *Contestable service provision*

12 The Governance Board should be responsible for determining the services to be provided to the market, which should be contestable wherever possible.

### *Competing market arrangements*

13 The new governance framework should not preclude the establishment of any competing arrangements consistent with unified security constrained dispatch and consistent with this Government Policy Statement and the Guiding Principles.

### *Market surveillance arrangements*

14 The new governance framework should provide for an effective and independent market surveillance body to monitor compliance with and enforce rules. The body should be able to obtain all the information it requires, recommend changes to the rules to the Governance Board and have access to dedicated resources. It should proactively investigate potential breaches of market rules.

### *Release of wholesale market information*

15 The Governance Board should ensure that information on offers by generators for dispatch (including ancillary services) is released publicly after two weeks.

### *Spill from hydro dams*

16 The Governance Board should ensure that quarterly information is made available on the amount, timing, location, and reasons for, spill within four weeks of the end of each quarter.

### *Forward electricity price curve*

17 The Governance Board should ensure that aggregate information on hedge prices is made available, and should take steps to promote the development of trading markets that discover forward prices for electricity.

### *Real time market*

18 As a first step toward promoting active demand-side participation, the Governance Board should move urgently to implement real time dispatch prices so that the demand side can see and respond to real time market prices. The Board should also explore and consider any other opportunities for stronger demand-side participation in support of the Government's overall objectives.

### *Projections of system adequacy*

19 The Governance Board should facilitate arrangements for the preparation and release of short and medium term projections of system adequacy, covering issues such as forecasts of energy and reserve availability and transmission outages, to ensure that industry participants are fully informed on factors likely to affect prices.

### *Financial instruments to manage transmission risk*

20 The Government supports the development of innovative financial instruments, such as financial transmission rights, so that market participants can better manage risk in respect of transmission losses and constraints.

## **Transmission issues**

21 Transmission has strong natural monopoly characteristics. This makes it important that the Government set out its policy expectations as to how transmission services should be provided and priced and how Transpower should operate.

22 The Government's expectations in this regard are specified in the objectives and principles for the provision of transmission services set out in Attachment 1 to this Policy Statement. Transpower's statement of corporate intent will be modified in due course to reflect the new objectives and pricing principles.

23 Transpower will be responsible for developing the transmission pricing methodology consistent with the objectives and principles for the provision of transmission services outlined in Attachment 1. The Governance Board should ensure that consistency with the objectives and principles has been achieved. The Governance Board is also to ensure that transmission charges established consistent with the transmission pricing methodology are enforceable on the same basis as other rules set by the Governance Board.

24 As a safeguard in case the Governance Board and Transpower are unable to agree on a satisfactory transmission pricing methodology, the Government proposes that a provision be included in legislation to ensure that the Government can empower the Commerce Commission to determine the transmission pricing methodology. If the transmission methodology is established by the Commission, Transpower's charges would be recoverable as a debt.

### **Distribution and retail issues**

25 The Governance Board should:

- develop model approaches to distribution pricing;
- draw up model Use of System agreements for use of distribution lines, ensuring that the interests of retailers and users are given weight equal to that of line distribution companies (the model Use of System agreements should include the terms and conditions for connecting distributed generation to the network);
- ensure that terms and conditions for connection of distributed generation to networks is included within the model distribution pricing methodology and that these terms and conditions are subject to dispute resolution under the new rules;
- take responsibility for the enforcement and any future development of the protocols for consumers to switch retail suppliers;
- establish arrangements to ensure an orderly transition for end users in the event that a retail company becomes insolvent;
- develop rules to ensure that all retailers serving more than 25 per cent of the market for domestic consumers in a line network area, measured by the number of consumers to whom profiling applies, must offer pre-payment meters to domestic consumers at reasonable cost; and
- draw up a model contract for domestic consumers, in consultation with the Ministry of Consumer Affairs and consumer representatives. The following features are to be designed into the model contract:
  - ◇ transparency of charge components;
  - ◇ frequency of billing;
  - ◇ company-specific arrangements for dispute resolution<sup>6</sup>;
  - ◇ arrangements for consumer protection with respect to outages;
  - ◇ the arrangements mentioned above for an orderly transition for end users in the event of insolvency of a retailer;
  - ◇ arrangements mentioned above on the availability of prepayment meters to domestic consumers reasonable cost.

26 The Government expects distribution companies to keep changes to rural line charges in line with urban line charges and will monitor developments in rural charges.

27 The Government expects all retailers to offer at least one tariff to domestic consumers with a fixed charge of no more than 10 per cent of the bill of the average domestic consumer (i.e. consuming 8,000kWh per annum). This new tariff should incorporate the following design features:

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<sup>6</sup> Such company-specific arrangements are also required as a component of the development of the industry-wide consumer complaints resolution system.

- increases in variable (i.e. per kWh) charges in the new tariff are to be constrained so that the annual bill of the average domestic consumer (8,000 kWh per annum) will be the same regardless of their choice of current or new optional tariffs;
- the new tariff is to be advertised and promoted in the same manner as existing tariffs;
- the new tariff to be available only for dwellings where the consumer usually resides;
- the new requirement is to extend to cover both 'standard' tariffs and tariffs for 'interruptible load' such as water heating and nightstore heaters;
- all retailers to be required to make the new tariff genuinely available (subject to usual credit-worthiness tests), irrespective of the size of the consumer; and
- tiered variable tariffs (e.g. high c/kWh for the first 2,000 kWh per annum) are to be precluded (this is to ensure that the lower fixed charge offers genuine advantages to small consumers).

28 The Government will monitor developments in fixed charges, and will, if necessary, regulate to ensure that its policy is enforced.

### **Consumer complaints resolution system**

29 The Government expects the industry, in consultation with the Ministry of Consumer Affairs, to establish a system under which complaints by consumers relating to retail and line distribution companies can be appropriately addressed. As set out in paragraph 7, this system is to be included in the Governance Board's rules.

30 The system should include the following features:

#### **Key features of the consumer complaints resolution system**

The consumer complaints resolution system will feature:

- an industry code of practice that includes standards for contracts (covering such matters as billing and disconnection) and metering practices;
- membership by all distributors and retailers;
- robust internal complaints-handling processes within all member companies;
- an independent, external, consumer complaints resolution scheme that meets the following standard benchmarks:
  - ◇ *accessibility*: the scheme provides all consumers with rights of access by promoting knowledge of its existence, being easy to use and having no cost barriers;
  - ◇ *independence*: the decision-making process and administration of the scheme, including appointment and funding, ensure appropriate independence of the office-holder from member companies;
  - ◇ *fairness*: the scheme produces decisions which are fair and seen to be fair by observing the principles of procedural fairness, by making decisions on the information before it and by having specific criteria upon which its decisions are based;

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- ◇ *accountability*: the scheme publicly accounts for its operations by publishing its determinations and information about complaints and highlighting any systematic industry problems;
- ◇ *efficiency*: the scheme operates efficiently by keeping track of complaints, ensuring complaints are dealt with by the appropriate process or forum and regularly reviewing its performance; and
- ◇ *effectiveness*: the scheme is effective by having appropriate and comprehensive terms of reference and periodic independent reviews of its performance;
- self-funding by the industry;
- compensation where appropriate; and
- a fines process through the independent surveillance body set up by the Governance Board in accordance with point o of the Guiding Principles. Key features of the fines process should include:
  - ◇ consultation with the Ministry of Consumer Affairs on issues that should be subject to fines;
  - ◇ ability to receive complaints direct from consumers as well as referrals from the external, consumer complaints resolution scheme; and
  - ◇ fines imposed to take account of any awards or compensation made by the consumer complaints resolution scheme.

## Government oversight of progress

31 The Government favours industry solutions ahead of regulation. However implementation of these changes must be timely and effective. The electricity industry is invited to move quickly to put in place the new governance structure.

32 The Chair of the Governance Board (or the Chair of any establishment committee of the Governance Board) should report to the Minister of Energy every two months on progress in implementing the Government Policy Statement. Until such time as the Governance Board or an establishment committee is established, these reports should be submitted by the chairs of NZEM, MARIA and MACQS. █

33 If there has been insufficient progress in establishing the Governance Board that meets the Government's design principles, the Government will regulate to establish the Governance Board.

34 The Government advises that, working with the Ministry of Consumer Affairs, the industry should agree on the overall features and design of a consumer complaints resolution system, including the rules and terms of reference. If there has been insufficient progress, the Government will consider other options, including regulation, to establish the system.

## Annual report

35 The Governance Board should provide a report annually to the Minister of Energy on its activities and in particular on whether and to what extent the outcomes the Government has specified in this Government Policy Statement are being delivered effectively.

36 The Minister of Energy will table this report in Parliament. The Government will propose legislation directing the Controller and Auditor-General (CAG) and the Parliamentary Commissioner for the Environment (PCE) to report to Parliament annually. The CAG would provide assurance to Parliament that the Governance Board's report is soundly based while PCE would report on environmental sustainability issues.

### **Status of existing Government Policy and Section 26 Statements**

37 The Government Policy Statement '*Management of Dry-Year Risk*', issued on 15 December 1998, is reissued as an attachment to this Statement. For the avoidance of doubt, all other previous Government Policy Statements on electricity market issues are supplanted by this Policy Statement.

38 The existing statement to the Commerce Commission under section 26 of the Commerce Act 1986 "Further Development of New Zealand's Electricity Industry" of 8 December 2000 will be withdrawn.

A new section 26 Statement will be issued advising the Commerce Commission that this Government Policy Statement is a statement of the Government's economic policies within the meaning of that section.

Hon Pete Hodgson  
Minister of Energy

### **Attachments:**

One: Objectives and Principles for the Provision of Transmission Services

Two: Management of Electricity Supply Risk

## **OBJECTIVES AND PRINCIPLES FOR THE PROVISION OF TRANSMISSION SERVICES**

This document is issued as an attachment to the Government Policy Statement entitled '*Further Development of New Zealand's Electricity Industry*', dated February 2002.

### **Background**

1 The way in which transmission services are provided and priced impacts directly and indirectly on all parts of the electricity industry, the economy and the environment, including:

- the welfare of domestic consumers and the commercial viability and competitiveness of businesses;
- competition among and investment by suppliers of electricity services, including traditional suppliers such as electricity generators and alternative suppliers such as demand-side management including energy efficiency and load management, co-generation, and distributed generation; and
- the quality and sustainability of the environment.

2 Transmission has strong natural monopoly characteristics, which makes it important that the Government set out its policy expectations as to how transmission services should be provided and priced and how Transpower should operate. For example, poorly designed policies may encourage inefficient investment in generation, which would waste scarce capital resources and harm the environment.

3 The Government's expectations in this regard are specified in the objectives and principles for the provision and pricing of transmission services set out in this Policy Statement.

### **Objectives for the provision of transmission services**

4 The Government's objectives for the provision of transmission services are that:

- the services are provided in a manner consistent with the Government's policy objective – to ensure that electricity is delivered in an efficient, fair, reliable and environmentally sustainable manner to all classes of consumer;
- the services should be provided at the standards of quality and security required by grid users through a process of agreement with those users, or the Electricity Governance Board ('the Governance Board') on behalf of users;
- the efficiency of transmission services should be continuously improved so as to produce the services users want at least cost; and

- the services are priced in a manner that:
  - ◊ is transparent;
  - ◊ fully reflects their costs including risk;
  - ◊ facilitates nationally efficient supply, delivery and use of electricity;
  - ◊ promotes efficient use of Transpower's resources; and
  - ◊ promotes nationally efficient use of transmission services by grid users and so facilitates efficient resource use.

## **Responsibilities of Transpower**

5 Transpower's Board is responsible for determining Transpower's Statement of Corporate Intent (SCI) in consultation with shareholding Ministers on behalf of the Government as owner. The Government expects that the SCI will be consistent with the Government's objectives (see above) for the provision of transmission services.

6 Transpower's SCI will also set the key determinants of the overall revenue requirements for Transpower. As owner of Transpower, the Government expects Transpower to recover the full economic costs of its services, including a fair return to shareholders based on commercially acceptable principles for their investment in the transmission system.

7 Transpower's overall revenue requirements, in common with those for the distribution sector, should be achieved within the constraints of the Government's regulatory framework for lines.

8 Transpower will be responsible for developing the transmission pricing methodology consistent with the objectives and principles for the provision of transmission services outlined in this document. The Governance Board should ensure that consistency with the objectives and principles has been achieved.

## **Responsibilities of the Governance Board**

9 The Governance Board will have a number of responsibilities in relation to Transpower and all users of the grid. These include:

- ensuring that Transpower's pricing methodology conforms to the objectives and principles for the provision of transmission services, and that Transpower and Transpower's customers comply with that pricing methodology;
- ensuring that transmission charges established consistent with the methodology are enforceable on the same basis as other rules set by the Electricity Governance Board;
- determining the standards of common quality and minimum real-time security required from the grid through a process of agreement between grid users and Transpower;
- ensuring that Transpower and all users of the grid comply with those standards; and
- ensuring that Transpower complies with the Government's principles for system expansion and replacement (see below).

10 The Governance Board may also make recommendations from time to time to the Government (as Transpower's owner) on any services provided by Transpower that could be made contestable in the interests of efficiency.

11 The Government expects that the Governance Board will undertake these responsibilities in a manner that is consistent with the Government's objectives for the provision of transmission services (see above).

12 The Government also expects that the Governance Board, as part of its annual report to the Government, will report on the extent to which those objectives are being complied with, and on how (if at all) those objectives could be better met.

13 As a safeguard in case the Governance Board and Transpower are unable to agree on a satisfactory transmission pricing methodology, the Government proposes that a provision be included in legislation to ensure that the Government can empower the Commerce Commission to determine the transmission methodology. If the transmission methodology is established by the Commission, Transpower's charges would be recoverable as a debt.

## **Principles for the provision of transmission services**

### *Cost recovery and pricing principles*

14 The Government expects transmission services to be priced efficiently, and to this end:

- Transpower should take into account the cost of transmission losses when planning maintenance;
- after allowing for financial losses and costs properly chargeable to the shareholder, Transpower's charges should recover the full economic costs of its services;
- the costs of connection should as far as possible be allocated on a user pays basis;
- the pricing of new and replacement investments in the grid should provide grid users with strong incentives to identify least cost investment options, including energy efficiency and demand management options;
- pricing for new entrants should provide clear locational signals;
- sunk costs should be allocated in a way that minimises distortions to production/consumption and investment decisions made by grid users; and
- the overall pricing structure should include a variable element that reflects the marginal costs of supply in order to provide an incentive to minimise network constraints.

### *System expansion and replacement principles*

15 To ensure investment efficiency, it should be left to industry participants, wherever possible, to make investment decisions that benefit grid users (in terms of increased security and reliability and/or lower costs from losses and constraints). The industry should be encouraged to evaluate alternatives to grid expansion and replacement, such as distributed generation and demand-side solutions.

16 To assist in the application of this principle, Transpower should produce annually a rolling five-year Statement of Investment Opportunities in relation to forecasts of medium term system adequacy. The Statement of Investment Opportunities will assist grid users to identify opportunities for generation (including distributed generation) and demand-side management (including energy efficiency and load management), and to determine whether these are more appropriate than further investment in the grid by Transpower.

17 In addition to those circumstances where Transpower and grid users have voluntarily agreed, grid expansion and replacement should take place where the Governance Board is satisfied that:

- the costs arising from (a) grid constraints and (b) risks relating to security exceed the costs of relieving those constraints and risks through investment in the grid; and
- alternative responses by industry participants and/or grid users (such as distributed generation and demand-side management) are not and are unlikely to be adequate to resolve the issue.

18 Where the Governance Board concludes that investment by Transpower is necessary, the cost of that investment should be recoverable by Transpower in accordance with the pricing methodology determined by Transpower and agreed with the Governance Board.

#### *Implementation guidelines*

19 The following guidelines are to be considered when applying the above principles:

- where the principles conflict, those conflicts should be resolved in a manner that is most consistent with the Government's energy policy objectives; and
- the application of the principles should take into account practical considerations, transaction costs and the desirability of consistency and certainty.

## MANAGEMENT OF ELECTRICITY SUPPLY RISK

This document is issued as an attachment to the Government Policy Statement entitled '*Further Development of New Zealand's Electricity Industry*', dated February 2002.

### 'Dry-year' risk

1 A key risk to the security of electricity supply in New Zealand is climatic uncertainty. We rely heavily on hydro generation and New Zealand has limited water storage capacity. Unusually low rainfall, or 'dry years', can create electricity shortages. The economy will continue to face this risk for the foreseeable future.

### Government's objectives

2 The Government's objective is to provide a framework which will ensure that dry-year and other supply risks are managed prudently at least cost to the economy.

3 Previous governments' Policy Statements concerning the management of dry-year risk have emphasised:

- the expectation that electricity industry participants should ensure that they take responsibility for managing dry-year and other supply risks; and
- that the government will not step in to protect those who fail to provide adequate protection.

4 If industry participants did not take such action, and a government stepped in, the likelihood of future supply shortages would increase as a result of weaker incentives on buyers and sellers of electricity to arrange appropriate risk management strategies.

5 It is timely to reiterate the current Government's expectations of industry participants and the principles that should be observed in managing electricity supply risks.

### Expectations and principles

- a Dry-year and other supply risks should be managed in such a way as to minimise overall costs to the economy.
- b Responsibility for managing risks relating to supply rests with market participants.
- c Generators are responsible for providing protection against supply risk at a quality and quantity that is demanded by their customers and established in contracts.
- d Spot and contract prices in the wholesale market should signal the changing risks of a dry year.

- e A range of mechanisms is available to industry participants to manage dry-year and other supply risks, within and outside the wholesale market.
  - f The trade-off between the costs of supply and protection measures should be made by those at risk.
  - g The wholesale market rules should not be biased against any particular protection mechanism.
  - h The Government is not expected to step in to protect wholesale buyers who fail to put in place adequate protection arrangements.
- 6 The Government expects that retailers will communicate to their customers the level of service (including the security of supply) that they are offering. This is so that consumers will have the information they need to make informed choices.