

Draft Government Policy Statement on Electricity Governance

Summary of and comment on submissions

April 2008

Ministry of Economic Development

Introduction

- 1 A draft Government Policy Statement on Electricity Governance (GPS) was released for consultation on 12 March 2008
- 2 19 submissions were received.
- 3 This document summarises the submissions received and provides officials' responses to the comments
- 4 The first section of the document summarises and responds to general comments made on the draft GPS, and the second section provides paragraph-by-paragraph comments

List of Submitters

Commerce Commission
Contact Energy
Electricity and Gas Complaints Commission
Electricity Commission (EC)
Electricity Networks Association (ENA)
Genesis Energy
Institute of Professional Engineers of New Zealand (IPENZ)
Joe Schady (individual)
King Country Energy (KCE)
Major Electricity Users Group (MEUG)
Marlborough Lines
Meridian Energy
Mighty River Power (MRP)
Odyssey Energy
Orion New Zealand
Powerco
Transpower
Unison Networks
Vector

General Issues

Submission	Officials' Response
<p>MEUG, MRP, Genesis GPS should focus on objectives and outcomes. It is too prescriptive and strays into operational detail, and this leads to concerns about Minister micro managing the EC. There is no place for task-orientated language in the GPS.</p>	<p>Noted. Mostly the GPS focuses on objectives and outcomes. Where it does specify specific tasks it generally does so to identify NZES/NZEECS actions or specific government policy. In such instances these tasks are generally expressed as outcomes the government seeks.</p>
<p>Genesis Questions the legal standing of the GPS and states that it is only the objectives and outcomes that create an obligation.</p>	<p>It is appropriate for the Minister to use the GPS to make the EC aware of government policy. The EC must then give effect to the objectives of that policy. The GPS is a high level, future looking policy statement, rather than a process focussed policy statement but this does not mean that process focussed policy statements can't be included in the GPS.</p>
<p>MEUG Government should consider what role GPS should have if any, in the context of the existing statutory objectives for EC.</p>	<p>The Act requires the Minister to issue a GPS [s127ZK(2)].</p>
<p>MRP Notes that regulation is only one of many tools available to the EC to give effect to GPS and is not the tool of first resort to be used without reference to assessment of alternatives and cost benefit analysis.</p>	<p>Noted. The Act sets out a very clear process that must be followed if regulations are proposed, including considering all other options first. The GPS does not override the Act.</p>
<p>MRP, Genesis Should rely on Part 1 (paragraphs 2-4) to guide the EC's approach and delete the frequent references to regulation in the rest of GPS. Constant repetition of this threat is unnecessary. Various amendments to the document are proposed to support this view.</p>	<p>Agreed.</p>
<p>Genesis Proposes that throughout the GPS the phrase "The Govt expects the Commission to...." be replaced with "The Commission should...".</p>	<p>Agreed</p>
<p>Vector Recommends that MED initiate a review of the regulatory framework faced by energy infrastructure providers with a view to making it more transparent, efficient and effective.</p>	<p>Noted, but outside scope of current exercise to update the GPS.</p>

Submission	Officials' Response
<p>Meridian, ENA, Unison, Orion Several reviews and pieces of legislation before Parliament (Commerce Act, EIRA, renewable preference, 2013 review) may impact on GPS and finalisation of it should wait until completion of these projects.</p>	<p>Noted. GPS should proceed now because it hasn't been comprehensively reviewed since the EC was established and should be updated now to incorporate NZES/NZEECS. Can be amended again if necessary to reflect any future policy changes.</p>
<p>MEUG GPS attempts to create new objectives which have not been tested through the legislative process.</p>	<p>Disagree. GPS objectives and outcomes relate to functions, principal objectives and specific outcomes stated in the Act.</p>
<p>MRP GPS would be easier to interpret if it was reorganised so that topic heading was followed by context followed by government's objectives and outcomes.</p>	<p>Noted. Generally the redraft of the GPS does follow this approach and some further amendments have been made to address comments in submissions.</p>
<p>MEUG Foreword confusing because it states it is not part of the GPS yet lists a range of other factors for which the EC does not have accountability but which the government wants the EC to take into account.</p>	<p>Noted. This follows the procedure of the 2004 GPS and the EC has not expressed any confusion. These other factors are listed in the foreword rather than the GPS because the EC does not have accountability for delivery. GPS focuses on matters for which EC has accountability for delivery.</p>
<p>MEUG Proposes that the full text of s172N of the Act (principal objectives and specific outcomes) which has been moved from the beginning of the GPS to an appendix to the Foreword, at the back of the GPS, should be reinstated at the beginning of the GPS.</p>	<p>Noted. The redraft of the GPS has attempted to remove sections that simply restate the requirements of the Act. The GPS is a statement of government policy and it is not considered necessary to include statutory requirements in it. Nevertheless because of the significance of s172N it was decided to append it to the foreword rather than remove it altogether.</p>
<p>IPENZ The GPS needs to be more specific about clarifying the role of the EC in relation to the Commerce Commission and EECA.</p>	<p>This is the purpose of the two MOUs that the GPS requires: with EECA (para 39) and with the Commerce Commission (para 122).</p>
<p>Para 2 – KCE Concerned that imposed arrangements without consultation can be negative as they do not go through the public scrutiny of formal regulations.</p>	<p>The Commission has a consultation protocol in place (required by para 5 of the GPS). The protocol does not differentiate between consultation for model arrangements and regulations.</p>

Submission	Officials' Response
<p>Para 2 – Odyssey Voluntary arrangements, particularly in monopoly areas, will not work. Carefully targeted regulations are essential.</p>	<p>Noted.</p>
<p>Odyssey Consultation process favours industry which has significant resources to make submissions. In contrast the consumer is poorly represented.</p>	<p>Noted. GPS emphasises the need for consumer involvement.</p>
<p>Odyssey Electricity governance is founded on a “business as usual” commercial environment that prevents innovative solutions.</p>	<p>Noted. GPS places emphasis on the importance of encouraging innovation.</p>
<p>MRP Suggests merging sections 2 and 4 because of duplication.</p>	<p>Disagree. While there is some duplication, section 2 covers NZES issues that are wider than just energy efficiency.</p>
<p>Genesis Proposes a significant redraft - bringing various elements relating to the GPS, its accountability, effect and status under the Act into one section at the front.</p>	<p>Noted. This is a matter of drafting style. While the proposed redraft is a reasonable alternative, it offers insufficient advantages over the current approach (which has been in place since the EC was established) to justify the change.</p>

Consumer Protection

Submission	Officials' Response
General – Meridian, Contact Supports the consumer protection measures in GPS	Noted.
Para 16 – Powerco Recognises need for consumer contracts to “reflect the reasonable expectations of consumers”, but believes retailers and distributors should also have some protection. Proposes additional words “and are not unduly onerous for electricity retailers and distributors.”	Not necessary. EC has to follow good process, assess the costs and benefits of proposals and consult with affected parties.
Paragraphs 19 and 20 – Orion Question the need for the EC to carry out both a monitoring role and development of model contracts and proposes that the requirement for EC to continue to develop model consumer contracts be removed.	Paragraphs 19 and 20 duplicate information and should be combined. Do not agree that the requirement for the EC to continue to develop model domestic contracts should be removed. Model contract should evolve to reflect changing market issues.
Para 21 – ENA The word “unreasonably” should be removed from the reference to fixed daily charges prior to introduction of the regulations.	Noted - the drafting reflects government policy at the time the regulations were introduced.
Para 23 – MRP Proposes that monitoring compliance with guidelines and recommending regulations if necessary, and specifying in detail what regulations should consist of, is too prescriptive. Instead EC should monitor compliance and consider alternative options if non-compliance is an issue.	Noted. However approach in GPS is consistent with government policy.
Para 23 – KCE Requirements relating to low income and vulnerable consumers are social responsibility goals that should be covered by the government and not passed to companies to carry the social load.	Noted.
Para 24 – KCE Limiting bonds to 1 month is inadequate as arrangements in para 23 can take up to 7 weeks.	Noted.

Submission	Officials' Response
<p>Para 27 – KCE Complaints system should apply only in situations where there is a commercial relationship because otherwise how can a company be held responsible.</p>	<p>Disagree. Not all potential complainants are in a commercial relationship with the company they are in dispute with (e.g. a potential customer).</p>
<p>Para 27, 31 and 32 – ENA References to “all distributors (including Transpower)” should be altered to “all distributors and Transpower” because the designation of Transpower as a distributor is misleading.</p>	<p>Transpower distributes electricity. The terminology used does not create any confusion.</p>
<p>Para 29 – EGCC, Commerce Commission Supports proposal for single scheme and endorses the international benchmarks in para 32 (EGCC).</p>	<p>Noted.</p>
<p>KCE – Para 29 A single scheme disadvantages consumers currently covered by the independent scheme set up by KCE.</p>	<p>Noted.</p>
<p>Para 26-32 – Meridian These paragraphs do not recognise the Commission decision to only approve one scheme.</p>	<p>Noted. GPS is statement of government policy and policy is for there to be only one scheme, and this is set out in paragraphs 29 and 30.</p>

Electricity Efficiency

Submission	Officials' Response
<p>General – Powerco, Contact, Vector Supports EECA and EC working collaboratively. Supports the clarification of roles and relationships between the two agencies. Supports promoting concentration of expertise, coordination of effort and avoidance of duplication.</p>	<p>Noted.</p>
<p>General – MRP There should be a clear succinct set of government objectives for electricity efficiency.</p>	<p>Noted. No change - it is considered that the government's objectives are set out in Part 4.</p>
<p>MRP Sceptical that the senior officials group will address the problem of proliferation of agencies with overlapping and competing interests. The GPS which only binds the EC is not the appropriate mechanism for dealing with this.</p>	<p>Noted. The GPS is however an appropriate mechanism for obtaining EC involvement with this group.</p>
<p>Para 33 – Odyssey Market forces won't deliver solutions in accordance with NZES/NZEECS when economic cases are based on short time frames, limited capital resources and institutional barriers.</p>	<p>Noted.</p>
<p>Para 34 – Odyssey Demand side management has significant potential that is not being introduced on a wide scale because of the "business as usual" environment.</p>	<p>Noted. GPS places importance on demand side as does NZES/NZEECS.</p>
<p>Para 34 – IPENZ Supports focus on demand-side management but notes statement is not very specific and proposes that it be expanded to say how and what the priorities are. Notes that other objectives include more detail.</p>	<p>It is accepted that some other objectives include more detail, but there are other specific references to demand-side management in the GPS. The government wants the EC to develop detailed initiatives, in consultation with all stakeholders.</p>
<p>Para 35 – Odyssey The agencies listed can provide some degree of coordination, but if NZES objectives are to be achieved other agencies and sectors must be involved (e.g. education, transport, R&D).</p>	<p>Noted. This is a matter for energy efficiency policy rather than GPS.</p>
<p>Para 36 – Odyssey Consumer group consultation is important. The draft GPS will go some way to removing public misunderstanding as to current responsibilities.</p>	<p>Noted.</p>

Submission	Officials' Response
<p>Para 37 – ENA Proposes an additional sentence “These programmes should span New Zealand’s economic activities, including the activities of all government agencies developing and implementing electricity dependent policies.”</p>	<p>Unnecessary. Paragraphs 13, 14, 35 and 36 refer to the need to work with other agencies involved with energy efficiency and to the senior officials group that will coordinate the development of priority energy efficiency programmes.</p>
<p>Para 38 – EC, MEUG, Contact, Meridian, MRP It is important to have contestability in delivery of energy efficiency initiatives. EC must hold competitive tenders for any work it funds and EECA should only be appointed if it wins tender. Paragraph should be amended to emphasise that using EECA to help deliver work programme should be consistent with good procurement practice.</p>	<p>Agreed. It may not always necessary for EC to tender but EC must at all times follow good procurement practice and para 38 will be amended to make this clear.</p>
<p>Para 40 – ENA Proposes an additional sentence proposing the development of principles for differentiating purchases aimed at achieving government policy objectives which should be funded by government and purchases for the benefit of market participants which may be funded by levy.</p>	<p>Noted. The levy reimburses the Crown for the EC’s costs in meeting its functions under the Act. The Act permits that the EC’s functions may be carried out by contracting with other parties, although the EC remains accountable for spending of its appropriation. The EC’s activities for which the costs are recovered from the industry must be in the EC’s work programme – funding from the EC will be available for priority actions that appear in the EC’s work programme.</p>
<p>Para 41 – MRP Reference to a detailed report that is not attached to the GPS is unhelpful. Suggests a reference be added.</p>	<p>Noted. Paragraph has been redrafted.</p>
<p>Para 41 – Vector Extreme caution should be adopted in using the KEMA report to underpin development of electricity efficiency activities.</p>	<p>Noted.</p>
<p>Para 41 – Odyssey KEMA report is adequate for determining best use of subsidy funds but in insufficient to determine how effective technologies will be in a normal business environment.</p>	<p>Noted.</p>

Submission	Officials' Response
<p>Paragraphs 42/43 – Contact, MEUG, Genesis Concerned at use of 5% discount rate. Emphasis should instead be put on informing consumers of benefits of efficiency measures and lack of knowledge is a key obstacle to uptake.</p>	<p>Noted. GPS reflects NZES (p85) and NZEECS. EC only required to include an assessment using 5% and advise how this has been taken into account when assessing cost-effectiveness of programmes.</p>
<p>Para 42 – Odyssey A more flexible use of discount rate should be used.</p>	<p>Noted. GPS requires consideration of discount rate, but does not specify this as only rate.</p>
<p>Para 44 – EC, Meridian, IPENZ, Genesis This paragraph relating to EnergyWise Homes project is not necessary.</p>	<p>Agree. Unnecessary to specifically identify that project. Government policy objectives and outcomes for the EC are adequately covered.</p>
<p>Para 47 – ENA, Vector Proposes an additional sentence requiring the EC to consult actively with the wider electricity industry on proposals to promote demand side objectives rather than just the seeking the views of established wholesale market participants who will not necessarily welcome competition from the demand side.</p>	<p>Unnecessary because GPS already requires EC to use proper consultation processes and EC has a consultation protocol in place (paras 4 and 5).</p>
<p>Para 47 – Odyssey Proposes more innovative metering and load control initiatives.</p>	<p>Noted. Mostly the GPS focuses on objectives and outcomes. Detailed initiatives are a matter for the EC.</p>
<p>Para 48 – ENA Proposes addition of reference to market structures so that sentence reads “The Commission should promote pricing structures and market structures that can provide appropriate signals to manage these losses and constraints.”</p>	<p>Disagree. It is unnecessary to refer to market structures in this context.</p>
<p>Para 48 – Odyssey Proposes a move from 11kV network to a new standard of 22kV network.</p>	<p>Noted. This is not a matter for the GPS.</p>
<p>Para 49 – ENA, Vector Proposes an additional sentence requiring the EC to consult with distributors.</p>	<p>Unnecessary because GPS already requires EC to use proper consultation processes and EC has a consultation protocol in place (paras 4 and 5).</p>
<p>Para 49 – Vector Should be further clarity around financial incentives for investment in electricity efficiency. Clarity would come from having a clear direction on how the EC and Commerce Commission should interact on the development of pricing methodologies.</p>	<p>Noted. The EC and CC are requested by the GPS (paragraphs 124/125 (now 118-119)) to do this.</p>

Submission	Officials' Response
<p>Para 49 – Vector EC's role in relation to advanced metering should be to monitor progress rather than develop potential rule changes.</p>	<p>GPS requirement reflects NZES.</p>
<p>Para 49 – Vector Pleased to see acknowledgment of the role of the distribution sector in the demand side. There needs to be a clear interface between EECA, EC and Commerce Commission on how this can be achieved and to ensure consistency.</p>	<p>The GPS provides for EC to develop an MOU with EECA and Commerce Commission on their respective roles.</p>
<p>Para 49 – KCE If electricity efficiency is cost-effective why does it need support? The use of efficient and efficiently in the GPS is inaccurate as electricity is usually used at high efficiency even if the use is not effective for purpose.</p>	<p>Noted.</p>

Renewable Energy

Submission	Officials' Response
Para 51 – KCE – Support for renewable energy generically is positive, but hydroelectricity appears to be second class.	Noted – section does not favour any particular type of renewables.
Para 52 – Vector, Meridian – specification of grid planning processes and approval criteria should not unduly favour grid upgrade plans that facilitate development of ‘renewable generation’ over grid upgrades for security of supply. The transmission framework should promote optimal transmission investment.	Noted – No change. Security of supply objectives are included in the GPS at paragraph 55 (now 52), and do not indicate that renewables are favoured over security of supply.
Para 52 – Electricity Networks Association – suggest an additional bullet “Transmission pricing methodologies, especially for new or renewed grid investment, should ensure that loads including generation receive real locational signals.”	No change – this is covered in other parts of the GPS (paragraphs 89 and 111-112, now 83 and 105-106) regarding transmission alternatives.
Para 52 – MEUG – Bullets 3 and 4 need to reflect balancing of facilitating renewables while achieving the other objectives of s172N of the Act.	Noted – No change. The Act requires the GPS to be consistent and the EC must balance facilitation of renewables with other objectives. This does not need to be stated in the GPS.
Para 52 – IPENZ – Supports objectives	Noted.
Para 52 – MRP – the third and fourth bullet points appear to be saying the same thing.	No change – although the bullets are similar, one is about Transpower planning and one is about EC processes. Having 2 bullets reinforces the different roles between the two agencies.
Para 52, 4 th bullet – Transpower – Some rule changes may be required to achieve this objective. Recommends adding to the fourth bullet in para 52 ‘The Commission should recommend any Electricity Governance Rule changes that are necessary to achieve this. ‘	No change – The Commission will develop rules, if necessary to support objectives and outcomes through many sections of the GPS. Rules and Regulations addressed in paragraphs 3-4.
Para 52, 4 th Bullet – Genesis – it is not necessarily the case that there is a mismatch between transmission and generation lead times and that this problem is enduring. Suggests either the last part of the final bullet point is deleted, or adding ‘where this has been demonstrated to be tangible, enduring problem’.	Agree – redrafted to refer to ‘any’ difference in lead times for transmission and generation investment.

<p>Para 53 – ENA, Transpower – ENA suggests the first sentence should include “without unreasonably compromising electricity security of supply.” Transpower notes 90% renewable generation target should be consistent with the Government’s key requirements for security of supply and recommends adding to the final bullet point in paragraph 52: “...and the need to maintain adequacy, reliability, security and quality of supply (in particular voltage support, frequency stability and overall system stability)”</p>	<p>No change – security of supply objectives are included in the GPS at in paragraph 55 and do not indicate that renewables are favoured over security of supply.</p>
<p>Para 53 – Contact – supports the specific treatment of wind integration issues and believes the EC has to date played a positive role in investigating the role of wind in the NZ electricity market.</p>	<p>Noted.</p>
<p>Para 53 – IPENZ – Support, but suggest marine-derived energy conversion should be specifically included due to its potential.</p>	<p>No change – focus of paragraph relates to intermittent wind generation (which is more likely in the near term than marine).</p>
<p>Para 53 – MRP – Heading above should be ‘wind integration issues’.</p>	<p>No change – detail is outlined in paragraph 53 (now 50).</p>
<p>Para 53 – MRP – Jumps straight to prescribing a solution. An approach more consistent with the statutory framework would be to specify the government want the Commission to use its powers and functions to ensure the maximum economic potential of wind generation can be achieved, leaving it up to the Commission to decide how to do this.</p>	<p>Noted</p>
<p>Para 53 – Genesis – First sentence revised to ‘The Commission should...’, rather than ‘The Government expects the Commission to...’.</p>	<p>Agree – text has been changed.</p>

Security of Supply

Submission	Officials' Response
<p>Contact – agrees with the new approach to security of supply as outlined. Agrees with the additional focus on peak capacity requirements. Notes the pricing rules for Whirinaki will negatively impact on the economics of new plant designed to provide peak capacity to back increasing amounts of wind generation.</p>	<p>Noted. The Whirinaki pricing policy is well established and transparent.</p>
<p>Orion – is encouraged by continued focus on security of supply and in particular the new focus on monitoring peak capacity. Recommends consideration is given to requiring the Commission to consider the potential adverse impact that disaggregation of centralised load management control may have on system security.</p>	<p>Noted.</p>
<p>Joe Schady – Can the Crown ensure the certainty of power supply over the next 50 years?</p>	<p>Addressed in the NZES to the extent government can foresee what the next 50 years will hold.</p>
<p>Meridian – notes paras 58 and 59 of the 2006 GPS have been removed. Meridian submits it is essential that 'reserve energy' is ring fenced to minimise any affect on ordinary investments and that any trading strategies for reserve energy should be publicly available.</p>	<p>Refer para 73. the EC consults and publishes its reserve energy policy and offer strategies (ref paras 61 & 63).</p>
<p>Meridian – notes change in security of supply objective from 1 in 60 dry year standard to winter energy margin.</p>	<p>Noted.</p>
<p>Vector – supports the improved transparency and monitoring of peak adequacy. Supports monitors of balance between demand growth and new generation capacity investment. Believes electricity and gas sectors need to be more closely linked in the development of security of supply policy.</p>	<p>Noted.</p>

Submission	Officials' Response
Para 54 – KCE – this cuts directly across the market structure which depends on pricing signals for determination of future capacity.	Disagree. Requiring secure supply does not require overbuild or undermining of the market. Economic development requires a secure supply but not at any cost.
Para 54 - Orion - recommends the addition of a new sentence acknowledging that incentives on distribution and transmission companies to invest and innovate must continue and not investment in generation alone.	No change. Covered in distribution and transmission sections.
Para 55 – ENA, Vector – 1 st bullet – add “, including peak demand growth” at end of sentence.	No change. “Demand” is not defined here. Peak demand specifically referred to in para 59.
Para 55 - Transpower – 3 rd bullet appears to confuse need for additional generation capacity with short term energy requirements. Short and long term likely to require different solutions and should be addressed separately.	Noted. The bullet covers both short and long term requirements, but is not confusing.
Para 55 – KCE – 3 rd bullet – depends on adequate pricing signals for economic operation.	Noted
Para 55 – KCE – 6 th bullet – currently very few [consumers] have exposure and then primarily by choice.	Noted
Para 55 – Transpower – supports 4 th bullet on availability of quality information and forecasts as a key requirement contributing to security of supply. However believes should be further expanded to require appropriate incentives to encourage intermittent generators to improve forecasting as wind generation capacity increases.	No change. Directing how and what ‘quality information’ is obtained is not appropriate for the GPS.
Para 57 – Vector – supports replacement of 1 in 60 dry year standard with winter energy margin conditional on development of further detail on the calculation of the margin.	Noted.
Paras 57 and 58 – Transpower – not clear whether the winter energy margin (replacing 1 in 60 dry year standard) will take proper account of the greater constraint on HVDC southward transfer that will apply until replacement of Pole 1.	Noted. Operational detail will be developed by the EC.

Submission	Officials' Response
<p>Paras 57 and 58 – Transpower – no specific provisions requiring the Commission to develop arrangements to manage risks to security of supply presented by increases in wind generation capacity. Recommends addition of further paragraph.</p>	<p>EC will need to consider wind variability and contribution to winter margin. Security of supply objectives outlined in paragraph 55.</p>
<p>Para 58 – Transpower – winter energy margins proposed are defined by island. To be consistent with Minzone definition, the definitions should relate to north and south of Bunnythorpe.</p>	<p>This is the outcome of the EC's extensive consultation on the Reserve Energy Policy in 2007. Operational detail will be developed by the EC.</p>
<p>Para 58- KCE –the level should be set as an outcome of the work being carried out by the Commission in the Market Design Review.</p>	<p>This is the outcome of the EC's extensive consultation on the Reserve Energy Policy in 2007. Operational detail will be developed by the EC.</p>
<p>Para 58 - MRP – supports adoption of a mean winter energy margin but concerned how it will be implemented. Suggests objectives in this para be more clearly specified to reduce uncertainty.</p>	<p>This is the outcome of the EC's extensive consultation on the Reserve Energy Policy in 2007. Operational detail will be developed by the EC.</p>
<p>Para 59 – Transpower fully supports requirement on Commission to develop and set security standards for adequacy of capacity to meet peak demand.</p>	<p>Noted</p>
<p>Para 59 – ENA, Vector –important that the standards include reference to power quality and voltage levels.</p>	<p>Voltage and quality standards are performance obligations on the System Operator.</p>
<p>Para 60 – Transpower – as currently worded this is a little cryptic and needs to be clarified. In Transpower's view [previous] arrangements have proved successful and should continue. Recommends para 60, 4th bullet in para 61 and para 66 should clearly state that the Commission should, wherever possible, implement these requirements through the existing collaborative bodies such as the System operator's National Winter Group and its summer and winter upper North and South Island industry management groups.</p>	<p>No change. This is detail on the process the EC would use, not for the GPS.</p>

Submission	Officials' Response
Para 60 - MRP – a requirement to consult with stakeholders over assumptions used in Minzone and energy margin could be added here.	No change. Refer paras 61, 68 and 69.
Para 61 – Transpower – previous requirements on the Commission to publish its process for procuring reserve energy and assessing competing offers appears to have been replaced by the 3 rd bullet in this paragraph except the assessment process. Transpower recommends the requirement is re-instated as the Commission operates in a competitive market when procuring reserve energy and the assessment processes should be transparent.	Noted - would expect the assessment process would be part of the procurement policy in the security of supply policy consulted on and published (para 61 3 rd bullet)
Para 63 – MRP – support the greater transparency inherent in the requirement for the Commission to publish protocols to manage potential conflicts between its roles and a contractor for reserve energy and as a regulator.	Replaced 'put in place' with 'have'.
Para 64 – MRP – not clear how the requirement on the Commission fits with the modelling and forecasting work undertaken by MED.	No direct fit. EC work supports their objectives and tends to be more granular.
Para 64 - Vector – given the criticality of the underlying models to supporting robust forecast, there should be a requirement for these models to be subject to regular independent reviews.	Noted - Refer para 64. EC is required to publish detailed models and expect stakeholders would provide views on the outputs.
Para 65 – MRP – has concern with risks around implementation of the winter energy margin. Supports the Commission forecasting out 5 years rather than 3 – 5 to give market the certainty need to make investments before the Commission exercise the option of intervening. - IPENZ – questions whether 3 – 5 years is a long enough period considering the long lead time for construction.	Noted. It is 3 to 5 years and the EC will determine the optimum timeframe. EC can look further out should it wish.
Para 67 – Vector – A well designed capacity mechanism could shift the responsibility for maintaining security of supply from the Commission to the generators/retailers who Vector believes are best placed to manage the risks.	Noted

Submission	Officials' Response
Paras 68-70 - Meridian – queries whether the section relating to ‘Hydro storage guidelines’ is reference to work already completed by the Commission on the Minzone ?	Minzone is well established but further development to improved its usefulness is encouraged.
Para 71 – Contact – agrees with the approach to reserve energy.	Noted
Para 73 – Orion – recommends modification to require the Commission to consider the additional benefits that distributed generation could provide in respect of reducing peak capacity constraints and delaying upgrades, when contracting for reserve energy.	No change. Would expect the benefits of distributed generation would be considered in the reserve needs analysis.
Para 74 – Transpower – based on its experience with demand side response through its trial of grid support contracts Transpower recommends the paragraph is redrafted to ensure demand is not committed to other security services such as AUFLS.	No change. Refer para 74. Demand side response is required to be ‘practicable’ and commitment to other uses would seem to be counter to this.
Para’s 78 and 79 – Contact – supports the additional text on emergency management.	Noted.
Para 80 – ENA – add the word “transparent” as the recovery of the levy fairly should be readily verifiable by all levied parties.	No change. Levy calculations are already transparent, published and independently audited.
Para 81 – Contact – notes the dilution of the wording. If the levy does not recover the operating and capital payments less revenue the taxpayer picks up the difference.	Noted

System Operation and Wholesale Market

Submission	Officials' Response
<p>Para 87 – Transpower – notes what while previous section on financial transmission rights (FTRs) has been deleted, what has replaced it includes the overall aims FTRs sought to achieve.</p>	<p>Noted.</p>
<p>Para 87 – Transpower – Recommends last bullet in para 87 is re-phrased as 'solutions should balance economic efficiency with pragmatism, and provide a system that is not overly complex to use.' Some good products in this area are simple to use but require complex software, and it would be inappropriate to rule them out.</p>	<p>Agree – the words 'to use' have been added to the end of the sentence. Economic efficiency is included in the bullet point above, and the Commission is expected to balance objectives.</p>
<p>Para 87 – Transpower – recommends adding a fourth bullet 'so that participants can hedge their varied and changing financial contract exposures, the product should be tradable between participants, provided this is feasible and economically desirable.</p>	<p>Noted. This issue is covered by the second bullet regarding economic efficiency and should be consulted as a design detail by the Commission.</p>

Transmission

Submission	Officials' Response
Powerco - submits it would be useful to clarify that this section is applicable to the 'national grid' as defined in the Electricity Act 1992.	Definition is not required in the GPS.
MEUG – this section is a good example of how the GPS has become too detailed and intrudes on the operational detail that the Commission is already obliged to operate within and improve on. This section is essentially redundant as the higher level objectives of s. 172N of the Electricity Act are sufficient.	Noted. The Act requires a GPS.
Para 88 – Transpower – recommends this is balanced by a comment that there is a countervailing risk of under-investment in transmission.	The last sentence will be deleted.
Para 88 - Powerco – the 2 nd sentence could be improved by acknowledging that whilst transmission does have natural monopoly characteristics there is competition at the margins	Noted. No change.
Para 89 – ENA –add a further sub bullet to the 7 th bullet “promotes efficient investment in transmission-reliant generation or generation alternatives, including the economically efficient location of alternatives” to be consistent with other objectives in the GPS including promotion of renewable generation and demand side options.	No change. Covered in 3 rd and 4 th sub bullets in same paragraph.
Para 88 - Contact – 5 th bullet - strongly agrees with emphasis on 'cost effective' that has been added.	Noted
Para 88- Powerco – submits there could be value in MED ensuring the various pricing objectives [in the GPS] and the incentives they see to create are consistent.	Noted. Pricing paragraphs are consistent with government's current policies.
Para 88- Vector – priority should be given to developing a pragmatic approach to locational transmission pricing.	No change. Refer 3 rd bullet para 115.

Para 92 – Transpower – supports the revised wording.	Noted
Para 92 - ENA – after the words ‘reliable grid’ add the words ‘and complement wider electricity industry investment’ as the Commission should be conscious that optimising overall investment in electricity delivery systems is in the national interest, and should not be unreasonably compromised by a focus on transmission investment alone.	This bullet is about grid reliability standards and the connection to and use of the grid. Other issues covered in other areas of the GPS.
Para 95 – Transpower – recommends the 1 st sentence be amended to clarify the status of the SOO with the inclusion of “.. to provide information to assist the identification of potential investment opportunities.” at the end of the sentence.	No change. Covered in 2 nd bullet.
Para 95 - Contact – strongly supports linkage between grid upgrade plans and the SOO.	Noted.
Para 95 – Transpower – recommends the SOO give specific consideration to security of supply with the addition of a further bullet point referencing specifics in section 6 of the GPS.	No change. Security of supply is inherent in the development of the scenarios and matching of forecast demand and supply.
Para 96 – Genesis – delete as now superfluous .	Disagree. Included for clarity.
Para 97 – Transpower – strongly supports the concept as an appropriate development of the regulatory arrangements.	Noted
Para 99 – Transpower – believes the wording may be interpreted to mean the Grid reliability standards take precedence or even over-ride the other objectives for the provision of transmission services set out in para 89. Recommends the 1 st sentence should be extended to refer also to the objectives set out in para 89. The 2 nd sentence should be amended by deleting ‘reliability standards’ and substituting ‘these standards’.	No change. That interpretation is hard to see. Agreed (2 nd sentence amendment)
Paras 98 and 101 – Transpower – believes it would be helpful if the policy intention with respect to the SOO (that is it is an information document) were expressed more clearly and recommends	No change. Status of SOO and linkages are clear.

amendments to these paras.	
Para 100 – Vector – Important that grid expansion can occur in a timely manner and welcomes clarity on the roles. Agrees Transpower should have responsibility for the detailed planning role while the commission should review and assess compliance with the EGR criteria.	Noted
Para 100 - Genesis – uses the term ‘non-transmission alternatives’ but the heading above para 111 is “Transmission Alternatives”. Are these the same or different ? If not different then the term “transmission alternatives” should be used as this is defined and used in the EGR2003.	Remove ‘non-’.
Para 101 – Transpower – the proposed changes could be interpreted to mean the Commission has a role in the development of grid plans prior to submission. Recommends the original wording of para 87E of the 2006 GPS be substituted for the 1 st sentence.	No change. Interpretation is hard to see.
Para 101- EC - no longer requires that Grid Upgrade Plan (GUP) analysis must be able to be replicated by stakeholders. This replication requirement is important to the transparency and credibility of the process and needs to be retained.	Agree. Word removed in error, and will be added back in.
Para 103 – ENA – add the word ‘timely’ before the word ‘determination’.	No change - Unnecessary.
Para’s 105 and 106 – EC - are these still required now that the grid upgrade investment review policy (GUIRP) has been developed in conjunction with Transpower. If para 106 is retained, it should be amended to more accurately reflect the Commission’s role, which is to consider and approve (or decline) investment proposals from Transpower. Transpower is responsible for securing the interests, designations and consents described in the paragraph. The Commission cannot ensure that this takes place, as indicated by the current wording.	Noted. Para 105 reworded to convey need for timely planning and securing of consents. Agree para 106 needs to reflect EC and Transpower roles in process. Reworded.
Para 106 – MRP – does not consider the	Noted. Para 106 to be amended as

GPS is the appropriate mechanism for achieving consents, land interests and designations in advance of urgent [transmission] needs. The appropriate vehicle may be the Transpower's SOI or letter from Transpower's Shareholding Minister.	above.
Para 110 – ENA, Vector – add ‘, and also the different levels of supply security that multiple lines may provide.’ at the end of the para.	Noted. This section is on environmental effects. Consideration of diversity of supply is in para 89.
Para 111 – ENA – 1 st bullet replace the word ‘grid’ with ‘supply’.	Remove word ‘grid’
Para 112 – Genesis – delete as generally accepted Commission will not be undertaking further work on this and if any funding forthcoming this would be via Transpower.	No change.
Para 113 – 115 – Genesis – amend to reflect that matters have moved on in this area.	No change
Para 115 – ENA – 2 nd bullet amend to ‘including distributed generation, energy efficiency and demand management options, and combinations of those options’. - the proposed cost recovery and pricing principles are not consistent with the principal objectives and specific outcomes outlined in s.172N of the Electricity Act 1992. The principles are based purely on economic and allocative efficiency principles with no recognition of the principal of ‘fairness’. Consider a framework, and subsequently reliability standards, should be developed for evaluating what might be a ‘fair’ approach to grid reliability.	Agree No change - believe they are consistent.
Transpower – recommends the GPS include a specific requirement that a 5% pre tax real discount rate be used as the basis for all grid investment test analyses of grid upgrade plans.	No change - not government policy

Distribution

Submission	Officials' Response
<p>Para 116 – Genesis - First sentence suggests addition ‘...approaches to distribution pricing based on identified market failures and...’. Second and third sentences suggests deleting.</p>	<p>No change – Commission will be required to consult and do cost/benefit analysis for proposals. See paras 2-4. Second sentence deleted. 3rd sentence reflects government policy as outlined in the NZEECS.</p>
<p>Para 117 – Contact – concurs with objective of greater standardization and simplification of terms and conditions offered by lines companies for use of their lines.</p>	<p>Noted.</p>
<p>Para 117 – Orion, KCE – Orion recommend deletion and note the government should take a cautious approach as the likely outcome of standardisation is that innovative solutions will be stifled and more economically efficient/cost reflective improvements would be hindered. KCE suggest this is an extremely anti-competitive move. New entrants and smaller retailers can utilise variability to create niches where they can out-compete the larger companies.</p>	<p>Agree with comments that government should take a cautious approach. Text revised to suggest Commission investigate a solution, rather than prescribing one.</p>
<p>Para 118 – ENA – suggest add to end of sentence ‘and should liaise with the Commerce Commission to ensure that any required revenues are recoverable by the distributor involved’. Distributors require an assurance that this cross subsidy will not be challenged or disallowed by the Commerce Commission. A policy that assures cross-subsidies to rural lines disadvantages other, potentially more economic, options such as remote area power systems.</p>	<p>Noted - The GPS is issued as a section 26 statement under the Commerce Act, so the Commerce Commission is required to have regard to this in its work.</p>
<p>Para 118 – Marlborough Lines – do not believe this requirement is appropriate for supply to remote rural area, supplied by grossly uneconomic distribution lines. Consumers won't consider alternatives when the cost of line supply is held at an artificially low level. The clause should be drafted to allow the EC some flexibility for grossly uneconomic lines.</p>	<p>Noted – paragraph reflects government policy on pricing.</p>

Para 118 – Marlborough Lines – The government should delay finalisation of this clause until policy decisions made with respect to the future of section 62.	Noted - GPS should not be held up pending resolution of other work programmes and will be amended if necessary once work is complete.
Para 118 – Genesis - First sentence revised to ‘Distribution companies should...’, rather than ‘The Government expects distribution companies to...’.	No change. This outcome is broader than the work of the Commission.
Para 119 – Meridian – It has been some time since the UoSA were updated. Given these UoSA are likely to become more important as lines companies become more active in generation, Meridian submits these agreements should be reviewed and updated.	Noted – GPS already requires EC to review model contracts to ensure they remain effective and up to date with current market issues.
Para 119 – Vector – the term ‘ripple’ does not allow for alternate load management technologies and suggests the following addition: “arrangements for use of ripple control (or alternative technology) for load management”.	Agree – text changed to include alternatives.
Powerco – Paras 48, 49, 89, 114, 118 detail pricing principles. There would be value in the Ministry reviewing the document with a view to ensuring the various pricing objectives and the incentives they seek to create are consistent.	Noted. Pricing paragraphs are consistent with government’s current policies. The GPS is issued as a section 26 statement under the Commerce Act, so the Commerce Commission is required to have regard to this in its work.
Orion – Matters relating to “Principles or model approaches to distribution pricing” should be moved from section 9 to section 10 of the GPS and explicitly considered in the MOU.	No change - distribution pricing is included in bullet 2 under paragraph 125 as a matter to be addressed in the MoU revision.
Unison – On the basis that the Electricity Commission is establishing model distribution pricing principles which are to be adopted by the distributors or mandated, it should be very clear that the Commerce Commission should not then be able to impose alternative requirements on distributors.	Noted. Distribution pricing included under bullet 2 in para 125 as a matter to be addressed in the MoU between the Commissions. The GPS is issued as a section 26 statement under the Commerce Act, so the Commerce Commission is required to have regard to this in its work.

Interrelationship with Commerce Commission

Submission	Officials' Response
<p>Para 120 – ENA, Unison suggest add to the end of the paragraph “It also sets out these expectations in relation to the administration of other electricity industry legislation including the Electricity Industry Reform Act 1998. For the purposes of this Policy Statement bills introduced by the Government and before the House that relate to electricity supply and the regulation of electricity supply and distribution services shall be considered to be indicative of Government policy.”</p>	<p>Noted - the GPS should not be held up pending resolution of other work programmes and will be amended if necessary once work is complete.</p>
<p>Para 121 – Genesis - First sentence revised to ‘The Commerce Commission and the Commission should...’, rather than ‘The Government expects the Commerce Commission and the Electricity Commission to...’.</p>	<p>No change. Objective is broader than just EC.</p>
<p>Suggested para 123a – ENA, Unison – “The government’s Energy Strategy favours the development of local and distributed generation, including investment in such generation by lines businesses”.</p>	<p>Noted – no change. This issue is included under bullet 4 in para 125 as a matter to be addressed in the MoU between the Commissions. It is also covered in section 11, paragraph 126.</p>
<p>Para 124 – ENA, Unison, Vector, Orion – suggest references to Part 4A and thresholds should be deleted.</p>	<p>Agree.</p>
<p>Para 125 - Commerce Commission – does not consider 30 June 2008 date is achievable to review MOU. Recommend delaying until 31 March 2009, given delays in the issuance of the GPS, and complexities associated with matters in para 125.</p>	<p>Agree – revised date included of 30 November 2008, six months from release of revised GPS.</p>
<p>Para 125 – Meridian Energy – MoU should be explicit about the role of the two Commissions with respect to EIRA, Information Disclosure Regulations and DG regulations, particularly as they relate to lines business re-entering generation and retail. The EC should monitor the offering (as well as take up) of model use of system agreements, particularly in networks where lines companies are generating less than 10MW in house and not required to have a UoSA. Meridian</p>	<p>Noted – The GPS can be amended if necessary in response to any changes in EIRA allowing lines companies to generate/retail, once work is completed.</p>

considers this a matter that the EC and CC must work together on.	
Para 125 – Powerco, Contact – Support improved co-ordination in this area.	Noted.
Para 125 – Genesis – Suggests redrafting of the paragraph, including removal of the specific bullet points.	No change - bullet points are specific issues of government policy that the MoU should address.
IPENZ – The issue of clarification of the role of the EC in relation to other agencies (Commerce Commission, EECA) is not adequately dealt with in the revised GPS, particularly delineating which agency determines policy and which has responsibility for implementation. Effort must be given to addressing this matter to ensure that there is investor confidence that there will be stable and consistent rules for the wholesale electricity market.	No change – the GPS provides for MoUs to be developed specifically to address these issues.
Transpower - Recommends including in the GPS that the Government’s expectation is that the MoU will be reviewed to make it consistent with the administrative settlement between Transpower and the Commerce Commission, and with any future amendments to Part 4A of the Commerce Act 1986.	No change – parties will amend MoU in relation to the first part if necessary. In relation to the second part the GPS should not be held up pending resolution of other work programmes and will be amended if necessary once work is complete.

Distributed Generation

Submission	Officials' Response
Para 126 – MRP – Clarify what objectives and outcomes the government wants the Commission to achieve. Is the desired outcome the removal of barriers to the development of distributed generation, should this prove necessary?	Agree that a definition of DG is not required in this paragraph. 1 st sentence has been deleted. The reason for the focus on DG is articulated at the end of the paragraph.
Para 126 – Genesis - suggest delete first sentence and go straight to second i.e. 'Distributed generation is expected to play...'	See comment above.
Para 127 – Genesis – suggests deleting detail on what regulations cover.	Agree - processes in regulations do not need to be outlined in GPS. Text revised.
Para 127 – Odyssey – The current regulations allow network companies to turn down a connection application when that application causes technical problems that a 'prudent' network operator finds unacceptable. It may be necessary to define in legislation when a network has reached capacity based on its ability to ensure adequate quality of supply without exceeding appropriate network loss benchmarks.	Noted. Comments on regulations are outside of the scope of the GPS.
Para 128 – Genesis – suggests the following revisions: <u>"The Commission should ensure that, where possible, regulatory compliance costs associated with the Regulations are minimised and the safety of connections to local networks are improved. The Commission should also seek to ensure that access to lines by retailers are not compromised by any changes made to the Electricity Industry Reform Act to facilitate the increased involvement of lines companies in retail and generation."</u>	No change - paragraph reflects government policy as outlined in the NZEECS. Issues in relation to access to lines are covered in para 119 relating to use of system agreements.
Para 128 – Odessey – We recommend the use of national guidelines and standards that will ensure they are common throughout the country.	Noted – paragraph reflects Government policy as outlined in the NZEECS.
Para 129 –ENA - should include reference to other buyers as well as retailers. It would seem reasonable to provide for purchases from generators by, for example, end users where this is commercially realistic.	No change – terms and conditions are for purchase of electricity from household scale generators, who are likely only to sell to retailers, rather than participating in the market.

<p>Para 129 – Genesis – rather than simply requiring the EC to ensure contracts include reasonable terms and conditions, the EC is to investigate and make recommendations on specific issues outlined in the bullet points. This goes beyond section 172O(1)(i) of the Act. Suggest deleting the last sentence and 2 bullet points in this para.</p>	<p>No change – paragraph reflects government policy as outlined in the NZEECS.</p>
<p>Para 129 – Odessey – If distributed generation is to make a significant contribution to the NZES, then many proposals need the certainty of a minimum return on exported electricity. Possibly all large retailers should be required to include a minimum return for electricity provided from distributed generators with their tariffs unless that generator opts out. We believe the proposed model contracts should be considered as the ‘opt out’ option when ultimately developed.</p>	<p>Noted. Model contracts have been developed and a copy can be found on the EC website. Paragraph reflects government policy as outlined in the NZEECS.</p>
<p>Orion – recommend a requirement in relation to the purchase of small amounts of excess generation be added to the list of issues in para 17 of the GPS that the Commission is required to ensure is included in contracts. Paras 129-133 could then be deleted.</p>	<p>No change – Government’s objectives/policy for DG are broader than consumer protection issues.</p>
<p>IPENZ – Important that appropriate specifications and standards are put in place in the regulations to ensure that small generators are clear about what is expected of them, and that the technical requirements are not set unreasonably high with the result of excluding them.</p>	<p>Noted – outside scope. Regulations are already in place. Work outlined in NZEECS will address this issue.</p>

Retail

Submission	Officials' Response
<p>Para 134 – Orion – para 134 should be deleted. Management of losses should be left as an issue between the two Commissions. The EC has changed the allocation methodology for distribution losses between retailers, commencing 1 May 2008, which should allay retailer concerns.</p>	<p>No change – indicates government policy that the EC will give effect to and should be giving consideration to in developing the MoU with the CC.</p>
<p>Para 134 – Orion - considers the term 'minimise' is inappropriate as it implies an absolute priority - it is more appropriate to 'optimise with regard to capital expenditure' as this correctly states the trade-off required.</p>	<p>No change – paragraph reflects government policy as outlined in the NZEECS. Trade-offs between the objectives in this section will be managed by the Commission in developing arrangements.</p>
<p>Para 135 - IPENZ – Introduction of intelligent meters to New Zealand has been continually stymied by the incumbent power supply industry. Accordingly, this extremely important strategy should be recommending regulations rather than guidelines which will be portrayed by the industry as altruistic but impractical.</p>	<p>Noted – paragraph 49 outlines government policy in respect of advanced metering issues.</p>
<p>Para 136 – Genesis suggests shortening paragraph and removing reference to regulation.</p>	<p>Agree – revisions made.</p>
<p>Para 137 – KCE – Disagree strongly with the position outlined. It takes hard work and knowledge development to understand the situation fully, but it is quite possible to work effectively in the hedge market.</p>	<p>Noted.</p>