



COMMERCE COMMISSION

Please refer to:

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4 April 2008

Ross Milner
Team Leader, Electricity
Electricity Group
Energy and Communications Branch
Ministry of Economic Development
P O Box 1473
WELLINGTON

Dear Ross,

**Submission on the Draft Government Policy Statement on Electricity Governance,
February 2008**

Thank you for the opportunity to comment on the draft Government Policy Statement on Electricity Governance.

The Commerce Commission has limited comments to make regarding the breadth of the matters covered by the draft Government Policy Statement on Electricity Governance ("GPS") and therefore will confine its comments to limited matters covered by the GPS:

- Consumer complaints resolution system (section 3); and
- Interrelationship with the Commerce Commission (section 10).

Consumer complaints resolution system

The Commission supports the aim of developing a single scheme for energy sector complaints. Such a scheme will better enable complaints that span and involve more than one industry party (both network and retail service suppliers) to be resolved.

It is appropriate to ensure therefore that all energy industry providers in either the gas or electricity sectors are members of such a scheme and that the other aspects proposed in paragraphs 26-32 of the GPS remain.

Interrelationship with the Commerce Commission

Section 10 covers of the draft GPS covers the interrelationship of the Electricity Commission with the Commerce Commission.

The Commerce Commission confirms that the Electricity Commission and Commerce Commission do work closely together on relevant matters to ensure that the respective roles of the two commissions are well coordinated. The Chairman of the Electricity Commission is appointed an Associate Commissioner of the Commerce Commission and is active on the relevant regulatory Division of the Commission. The Chairman also is a member of the Commerce Act Division and the Fair Trading Act Division for matters relevant to the work of the Electricity Commission.

The two Commissions continue to work together on relevant matters and hold quarterly meetings as a minimum covering a range of issues. In early-2007 the two Commissions reviewed and updated the Memorandum of Understanding (MOU) and established a protocol to the MOU in relation to the transmission issues (Protocol). These issues are set out in the draft GPS at paragraph 124.

It is the intention of the two Commissions that following the completion of the current administrative settlement process with Transpower that a review of the current Protocol dated 16 August 2007 will be undertaken to ensure that the Protocol outlining how the two Commissions coordinate their operations is updated to reflect any final terms of settlement, should that be the Commerce Commission's final decision. It is not likely any settlement will be in place until 30 June 2008.

The draft GPS includes a new paragraph 125 that indicates that the Commerce Commission and the Electricity Commission conduct a further review in 2008 to specifically address matters to improve incentives for electricity lines businesses in respect of:

- Managing distribution losses;
- Facilitating uptake of advanced metering infrastructure and more efficient distribution pricing;
- Ensuring target security levels for distribution networks are met at least cost; and
- Ensuring distributors have incentives to invest in, or facilitate investment in energy efficiency (including consumer end-use efficiency), demand-side management and distributed generation.

The Commerce Commission considers it is appropriate to engage with the Electricity Commission on these matters and to conduct a review of the MOU accordingly in relation to these matters. However, the current requirement is that such a review should be completed by 30 June 2008 (paragraph 125).

The Commerce Commission does not consider that such a date is achievable, especially in light of the draft being unlikely to take effect until May 2008. A number of these matters have not been considered or addressed by the Commerce Commission or are still to be addressed by the Electricity Commission. It is therefore recommended that, given the timeframe for the current settlement process outlined above; and the complexities associated with the matters set out at paragraph 125; and further given the delays in issuance of the draft GPS; and the

nature of the concurrent work programmes of the two Commissions that it would be most appropriate to delay this date until 31 March 2009.

In conclusion we thank you for the opportunity to submit on the draft GPS. There are few issues that require comment from the Commission. We are however supportive of a single complaints resolution scheme and support the approach to dealing with the interrelationship of the two Commissions but practically consider that an appropriate date of 31 March 2009 would give the two Commissions a better opportunity to more thoroughly review the MOU to take account of the matters set out in paragraphs 124 and 125 of the draft GPS.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Clark', with a stylized flourish at the end.

Michael Clark
Director, Network Performance