



**Submission to the Ministry of Economic
Development on the Government Policy
Statement on Electricity Governance:
March 2008**

From

Contact Energy Limited

4 April 2008

Introduction

Contact Energy (“Contact”) welcomes the opportunity to comment on the Ministry of Economic Development’s proposed Government Policy Statement (“GPS”) on Electricity Governance.

Contact’s comments follow.

For any questions related to this submission, please contact:

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General points:

- We consider that the GPS has been suitably updated. References in the existing document, which date from the time of the formation of the Electricity Commission (“EC”), have been amended to take account of the New Zealand Energy Strategy and New Zealand Energy Efficiency and Conservation Strategy.
- Contact agrees with Section 3, Consumer protection - we believe that the reasonable expectations of consumers are paramount. So when the EC is ensuring that transparency of charge components are included in contracts it should do so while balancing this with the overall benefit of consumers receiving accessible and understandable bills.
- Contact believes that the simplification of the section on low fixed charges is an improvement and we strongly support the section on arrangements for the benefit of low income and vulnerable domestic consumers. We were instrumental in working with the EC to improve the industry’s approach to these customers.
- Contact supports the effort to provide a unified electricity and gas consumer complaints scheme and supports the features of such a scheme as listed under paragraph 32. The final point that the scheme should be practical, resolve disputes quickly and cheaply and without unduly protracted or costly processes is particularly pertinent.
- Contact agrees with the new drafting in the GPS that endeavours to ensure that the EC and the Energy Efficiency and Conservation Authority do not duplicate activities. We consider that it is important to allow continued contestability in the delivery of energy efficiency initiatives.
- Contact has concerns about the adoption of a 5 per cent discount rate for the cost benefit analyses of energy efficiency measures. Consumers do not face a cost of capital of 5 per cent. If they are borrowing to fund the installation of a heat pump for example, they will be paying a lot more than 5 per cent. Contact believes that emphasis should instead be put on informing customers of the benefits of energy efficiency measures, as a lack of knowledge of the benefits, in spite of the capital costs involved, is a key obstacle to the greater take-up of these technologies.
- Contact supports the specific treatment of wind integration issues in paragraph 53 and believes that the EC has to date played a positive role in investigating the role of wind in the New Zealand electricity market.
- Contact concurs with the new approach to security of supply as outlined in Section 6. This includes the move to a mean winter energy margin and the development and publishing of hydro storage guidelines. The effective communication of this new approach is critical. Contact agrees with the approach to reserve energy in paragraph 71 where the

Government wants the EC to contract for but not own, reserve energy to maintain the desired energy margin.

- Contact notes that the pricing rules for Whirinaki's operation will negatively impact on the economics of new plant designed to provide peak capacity to back increasing amounts of wind generation. It will have the same effect on incentives to hedge and demand side management, to the extent that a peak is able to be predicted. Contact believes that the EC should endeavour to reduce this effect by ensuring that the intervention price reflects the actual cost of supply. We do agree with the additional focus on peak capacity requirements in the new GPS. We also support the additional text at paragraphs 78 and 79 on emergency management.
- We note the dilution of the wording in paragraph 81. If the levy does not recover the operating and capital payments less revenue then the taxpayer picks up the difference.
- Contact supports a review of security standards and policies by 2012 as proposed in the new GPS. We also back the more general approach to the EC's objectives for managing transmission risk as set out in paragraphs 86 and 87.
- We strongly agree with the emphasis on "cost effective" added to the statement that "the national transmission grid should be planned and made available so as to facilitate the potential contribution of cost-effective renewables to the electricity system"... as set out in paragraph 89. This is difficult for the EC to assess, but there is a crucial need to correctly assess this given its importance to where transmission investment is focused. Contact supports ensuring that there is a clear linkage between grid upgrade plans and the statement of opportunities.
- Contact concurs with the objective of greater standardization and simplification of terms and conditions offered by lines companies for use of their lines, as expressed in paragraph 117.
- Contact supports improved coordination between the EC and the Commerce Commission as set out in Section 10.