

# Electricity Networks Association

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## **Submission on Draft Government Policy Statement on Electricity Governance: March 2008**

Our suggested modifications to the draft GPS are marked in the relevant clauses below. Except where the change is self-explanatory we have included an explanation for our recommended changes in square brackets beneath each clause.

Alan Jenkins  
Chief Executive

### ***Recommended Changes to Draft Government Policy Statement, by clause:***

21. The Low Fixed Charge regulations were introduced in 2004 with the purpose of assisting low-use domestic consumers and encouraging energy efficiency. Prior to their introduction, low-use consumers in many areas faced **unreasonably** high fixed daily charges for their electricity usage. The introduction of the regulations provided these low-use consumers with a tariff option that was more equitable for low energy usage and compatible with the Government's energy efficiency objectives.

[We consider the word 'unreasonably' to be misleading. In most cases the charges were a reasonable reflection of true costs, and the change to higher variable charges was a political intervention aimed at meeting environmental and social objectives.]

27. The Government expects everyone (including potential consumers and owners and occupiers of land), in their capacity as producers or consumers of electricity, to have access to an independent and cost-effective system for resolving complaints about electricity distributors (including and Transpower) and electricity retailers without charge to the user/applicant, whether or not they have a consumer contract with the retailer or distribution company.

[In clauses 27, 31 and 32 the designation of Transpower as distributor is misleading, and not a realistic description of Transpower's role.]

31. If the industry is unable to provide an acceptable scheme supported by membership from all retailers and all distributors (including and Transpower) within a reasonable time, the Commission should recommend regulations to introduce a statutory scheme. Again, the Government expects the Commission to work closely with the Gas Industry Company in this regard.

32. The Government expects any approved complaints resolution system to include the following features:

- an independent complaints resolution scheme that is consistent with international best practice in the field of consumer complaints resolution systems (for example the Australian Benchmarks for Industry based Consumer Dispute Resolution Schemes which were developed in consultation with the New Zealand Ministry of Consumer Affairs)
- a decision-making process and administration of the scheme that is independent of scheme members
- membership by all distributors (including and Transpower) and retailers

37. EECA has expertise in the management of energy efficiency programmes and the Government expects the Commission to draw on this expertise in designing, administering and delivering its programmes. These programmes should span New Zealand's economic activities, including the activities of all government agencies developing and implementing electricity dependent policies.

[We are aware that other Government agencies, such as the Ministry of Agriculture and Forestry, are undertaking major programmes in areas such as irrigation that it would make sense to have these brought within this regime.]

40. All purchases by the Commission of services from EECA should be formalised in contracts which should be made available on the Commission's website. The Commission should develop clear, economically justified principles for differentiating purchases aimed at achieving Government policy objectives to be funded by a Government grant to EECA, and purchases for the benefit of electricity market participants, which may be funded by the Commission from levy income.

[It is important to ensure that 'user pays' principles do not become blurred at the interface between EECA and the Commission. Use of the Commission levy to fund more general energy efficiency and conservation programmes would amount to a de facto extra tax.]

47. The Commission should facilitate and promote stronger demand-side participation in the wholesale market in support of the Government's overall objectives. **It should also consult actively with the wider electricity industry, including consumers and distributors, on options for increasing the efficiency of the wholesale market recognising NZES objectives, and identify where regulations impede this objective and how such impediments could be overcome.**

[We believe that reform of the wholesale market to promote demand-side objectives should reflect, especially, advice and views of the parties best placed to benefit from or contribute to this, rather than the views of the established wholesale market participants who will not necessarily welcome competition from the demand side.]

48. Electricity should be conveyed efficiently on the national grid and distribution lines. Transmission and distribution companies should have better incentives to manage transmission and distribution losses and constraints. The Commission should promote pricing structures **and market structures** that provide appropriate signals to manage those losses and constraints.

[The emergence of a market for losses and constraints, possibly tied into the emerging carbon credits market, would appear necessary if this policy is to be effective.]

49. The Commission should promote and facilitate the efficient use of electricity by end users. It should pursue this objective in multiple and mutually-reinforcing ways, including **(in consultation with all parties able to contribute usefully, including distributors):**

- by providing financial incentives for investment in electricity efficiency where it is cost-effective to do so and in response to market failures and barriers
- by promoting cost-reflective pricing
- by seeking innovative ways to enable residential and other consumers to respond to pricing incentives to use electricity more efficiently
- by making recommendations to the Government as appropriate on the development of guidelines and/or potential rule changes to facilitate the progressive introduction of advanced/smarter meters for consumers
- by encouraging and facilitating demand-side participation in the wholesale, distribution and retail markets
- by promoting the efficient use of load management.

[Distributors have a strong interest in all of these issues, especially load management.]

52. The Government's objectives in relation to renewable electrical energy, are that:
- undue barriers to investment in renewables should be reduced or removed
  - the efficient uptake of renewable generation should be promoted
  - the national transmission grid should be planned and made available so as to facilitate the potential contribution of renewables to the electricity system
  - the specification of the grid planning processes and approval criteria should allow grid upgrade plans to facilitate the efficient and timely development of renewable generation resources, taking into account the substantial difference in lead times for transmission and some generation investment.
  - **Transmission pricing methodologies, especially for new or renewed grid investment, should ensure that loads including generation receive real locational signals.**

[Transmission pricing methodologies have tended to discriminate against local investment in renewables, and to allow investors in large non-renewable plant in more remote areas to avoid transmission costs. It would be timely to correct this now that NZES priorities have emerged.]

53. The Government expects the Commission to investigate the extent to which hydro and other generation sources can be integrated fully with intermittent wind generation in order to ensure that the maximum economic potential of wind generation can be achieved **without unreasonably compromising electricity security of supply**. This work should also include consideration of the changing role of older thermal generation plant. The Commission should recommend any Electricity Governance Rule changes that are necessary to achieve this.

[There is potential for conflict between the objective of ensuring 'maximum economic potential' and the other objectives in the GPS relating to supply security.]

54. Key requirements for security of supply, and confidence in security of supply, are that:
- Sufficient generation capacity is built or energy efficiency improvements made to meet ongoing demand growth, **including peak demand growth**
  - Hydro and thermal generating capacity and fuels are appropriately managed, to deal with the risk of shortages, including extended dry hydro periods
  - The system has sufficient capacity (plant and fuel and/or demand response) to cope with extreme dry sequences, periods of low wind speed and other unexpected supply disruptions
  - Quality information and forecasts of thermal fuel availability, the hydro system (including lake levels and spill), wind flows and generation capacity are available

- The national grid and distribution lines meet specified reliability objectives. (Transmission and distribution issues are covered in separate sections)
- Opportunity exists for electricity consumers to manage exposure to high spot prices. (Hedge market transparency and liquidity are covered in separate sections.)

59. The Commission should also develop and set security standards for adequacy of capacity to meet peak demand **while maintaining adequate power quality including voltage levels.**

[There is a much higher potential for power quality to become debased with peak loads. Increasing reliance on wind energy and other renewable also increase this potential.]

80. The Commission should receive any spot price revenue arising from the dispatch of reserve energy. Net costs should be recovered by way of a levy which is **transparent,** administratively simple and applies to all consumers based on wholesale purchases on an equal basis.

[The recovery of the levy fairly from all consumers, including direct connect customers, should be readily verifiable by all levied parties.]

89. 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 objectives for electricity, and in particular, that grid reliability should be maintained at a level required by residential, commercial and industrial users and by the Government's economic development objectives
- the transmission grid should be adequately resilient against the effects of low probability but high impact events having regard to the load which could be disrupted and the duration of any disruption
- where practicable, the transmission grid should provide adequate supply diversity to larger load centres, having regard to the load which could otherwise be disrupted and the duration of any disruption
- efficient competition in generation and retail is facilitated and transmission constraints are minimised
- 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, and in a manner that is consistent with the Government's climate change and renewables policies
- the efficiency of transmission services should be continuously reviewed and improved so as to produce the services that grid users and consumers want at least cost

- 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 investment in transmission or transmission alternatives
  - **promotes efficient investment in transmission-reliant generation or generation alternatives, including the economically efficient location of alternatives**
  - promotes nationally efficient use of transmission services by grid users and consumers
- stakeholders and the public are kept well informed about how agreed minimum levels of grid reliability are to be maintained throughout the development and consideration of any grid upgrade plans.

[This suggested objective is consistent with other objectives in the GPS, including the promotion of renewable generation and demand-side options.]

92. The common standards for the grid should be determined by the Commission, following consultation with Transpower and affected parties. The Commission should, from time to time, review the standards to ensure that they promote a secure and reliable grid **and complement wider electricity industry investment**, and that the interests of end-customers are properly taken into account.

[There are strong signals for optimising transmission investment in the current pricing methodology. However, 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.]

103. Transpower should be able to seek a **timely** determination from the Commission on updated grid upgrade plans in response to events that significantly affect any capital investment already approved under a grid upgrade plan.

110. To the extent that the Commission considers the environmental effects of new lines proposed by Transpower in a grid upgrade plan, it should also take into account any longer term benefits that larger capacity lines may provide by avoiding multiple smaller lines, **and also the different levels of supply security that multiple lines may provide**.

111. As part of the consideration of transmission investments, the Commission should ensure that transmission alternatives are considered to the extent practicable subject to the following conditions:

- only alternatives which have a high probability of proceeding, and where **grid supply** reliability can be maintained by contingency measures if the alternative is delayed or does not proceed, should be considered;
- alternatives which are only likely to proceed if they are assisted financially by the Government or relevant body should not be considered unless the Government or relevant body has agreed to provide such assistance.

115. The principles to be applied by Transpower in developing the transmission pricing methodology, and the Commission in approving it are:

- 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 beneficiaries with strong incentives to identify least-cost investment options, including **distributed generation, energy efficiency and demand management options, and combinations of those options**
- pricing for new generation and load should provide clear locational signals
- sunk costs should be allocated in a way that minimises distortions to production/consumption and investment decisions by grid users and consumers
- the overall pricing structure should include a variable element that reflects the marginal costs of supply in order to provide an incentive to minimise grid constraints.

118. The Government expects distribution companies to keep any changes to rural line charges in line with changes to urban line charges. The Commission should monitor developments in rural charges **and should liaise with the Commerce Commission to ensure that any required revenues are recoverable by the distributor involved.**

[If the Government's policy is to (in effect) subsidise rural line charges from urban charges, then distributors require an assurance that this cross subsidy will not be challenged or disallowed by the Commerce Commission, which has indicated on a number of occasions that it is opposed to cross subsidies in electricity line charges. We note that a policy that assures cross-subsidies to rural lines disadvantages other, potentially more economic, options such as remote area power systems.]

120. This section sets out the Government's expectations and intentions regarding the interrelationship between the Commerce Commission and the Commission with regard to the regulation of Transpower and electricity lines businesses by the Commerce Commission under the Commerce Act 1986 and the Electricity Commission under the Electricity Act 1992. **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.**

[Clearly, bills such as the Commerce Amendment Bill and the Electricity Industry Reform Bill reflect current Government policy on key electricity issues, and it would be confusing and disruptive to have the Commission develop workstreams without taking these and future electricity-focused bills into account. This move would also promote timely and progressive regulatory decisions.]

**123A. The Government's Energy Strategy favours the development of local and distributed generation, including investment in such generation by electricity lines businesses.**

[We believe that this is the case, as demonstrated by the Electricity Industry Reform Bill. If it is the Government's policy it would be helpful to have this spelled out in the GPS.]

124. Accordingly the Government requests that the Memorandum of Understanding between the Commerce Commission and the Electricity Commission continues to address the following matters in relation to transmission:

- the methodology for determining how each relevant expenditure component in relation to approved grid upgrade plans will be treated over time **under the Part 4A thresholds**
- how price setting **under a threshold** as regulated by the Commerce Commission interacts operationally with the pricing methodology approved by the Electricity Commission
- how issues relating to valuation methodologies, pricing and pricing methodologies, quality and information disclosure will be coordinated and harmonised where possible between the two Commissions.

[Other references to the about-to-be-repealed thresholds regime have been removed, and these suggested changes reflect Government policy as demonstrated by the Commerce Amendment Bill.]

## Purchase of surplus generation by retailers and others

129. The Commission should ensure reasonable terms and conditions in model contracts for purchase of small electricity surpluses by local retailers and other buyers from generators with generation units capable of generating up to 40,000kWh over a year. The Commission should investigate and make recommendations:

- on whether model contracts should specify pricing principles; and
- on how the model contracts should require itemised billing (showing imports and exports) by 2009.

[It would seem reasonable to provide for purchases from generators by, for example, end users where this is commercially realistic.]

## Status of existing Government Policy and Section 26 Statements

1. For the avoidance of doubt, all other previous Government Policy Statements on Electricity Governance are supplanted by this Policy Statement.
2. 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. **This Statement will make it clear that bills introduced by the Government and before the house are statements of, or indicative of, Government Policy.**

[This suggestion reinforces the suggested change to clause 120 where, clearly, bills such as the Commerce Amendment Bill and the Electricity Industry Reform Bill reflect current Government policy on key electricity issues, and it would be confusing and disruptive to have the Commission develop workstreams without taking these into account. Such a move would also promote timely and responsive regulatory decisions.]