



04 April 2008

Electricity Group
Energy & Communications Branch
Ministry of Economic Development
33 Bowen Street
PO Box 1473
Wellington
New Zealand

Dear Sir/Madam

Draft Government Policy Statement on Electricity Governance – March 2008

Meridian Energy ('Meridian') welcomes the opportunity to make submissions on the Ministry of Economic Development's (MED's) consultation on the March 2008 revision of the Draft Policy Statement on Electricity Governance ('GPS').

Meridian agrees that the review is timely given the extent of policy change relating to climate change and the development of the New Zealand Energy Strategy (NZES) and the New Zealand Energy Efficiency Conservation Strategy (NZECS). Meridian notes, however, that emissions trading legislation is currently being proposed and will be reported back to parliament in June. Included in that legislation is a proposal to ban new thermal base load generation, with responsibility for administering the ban and considering exemption applications lying with Electricity Commission ("Commission"). Meridian therefore submits that it would be useful to delay finalising amendments to the GPS until this legislation has been passed.

Given the amount of iterations to the GPS, Meridian considers that it would be useful for MED to outline how it considers the GPS relative to the Electricity Commission's (Commission's) Statement of Intent (SOI). Meridian notes that both the Electricity Act and the SOI outline comprehensive objectives for the Commission.

NZES and NZECS

It is clear that renewable energy is going to play an increasingly important role in New Zealand's energy future, particularly as we move into a carbon priced and constrained environment.

Transmission remains one of the most significant barriers to the development of renewable energy. While Meridian is encouraged by the work that the Commission and Transpower are undertaking on '*Transmission to enable renewables*', Meridian urges MED to also continue to work to ensure the transmission framework is such that it promotes optimal transmission investment.

Open Access

While it is widely understood that open access is fundamental to the successful operation and use of the grid, Meridian notes that there is no reference in the GPS to the fact that there should be no discrimination between new and existing parties wishing to connect to the grid.

In reviewing the consultation paper produced by the Electricity Commission Establishment Unit (ECEU) in November 2003, Meridian notes that the Unit considered:

“39. The draft rules do not include specific provisions relating to the process for gaining access to the national grid. Providing open and non-discriminatory access to the national grid is fundamental to a competitive electricity market. Terms and conditions for access, pricing, and investment have been contentious matters due to Transpower's inability to disconnect customers without connection contracts. One objective of the draft rules is to enable these key terms and conditions for access to be determined.”

Meridian agrees with these sentiments and submits that open access requirements should be made explicit in the GPS. Meridian notes that the draft Gas GPS has a requirement to develop open access regime:

“Design and recommend an open access regime (including transportation, interconnection and balancing services) across transmission pipelines that provides for gas market participants and new entrants to access transmission pipelines on reasonable terms and conditions.” Draft Gas GPS, December 2007.

Consumer Protection

Meridian is supportive of the consumer protection measures included in the GPS. However, Meridian notes that paragraphs 26-32 do not recognise the decision by the Commission to only approve one scheme. Meridian suggests that the draft revision of the GPS be amended in this regard. Meridian would also like to know what the governance processes of the scheme will be once it is approved.

Electricity Efficiency

Meridian notes that this section has been substantially re-written and disagrees with the direction of the amendments. In particular:

“The Government expects the Commission to participate in the delivery of the EnergyWise Homes package which is a suite of household energy efficiency initiatives set out in the NZEECS” (para 44).

It is not clear to Meridian whether “participate” is short hand for ‘fund’ as thus far the Commission has not run programmes that are listed in this package.

Meridian is pleased that the GPS states that *“All purchases by the Commission of services from EECA should be formalised in contracts which should be made available on the Commission’s website”.* (para 40)

However, Meridian submits that the Commission must hold competitive tenders for any work funded by the Electricity Commission levy and that EECA should only be appointed if it is the winner of the tender.

Meridian notes that the Government expects the Commission to report on its activities using a 5% real discount rate. This is a significant departure from the Commission's current practice of focussing on activities with a much shorter payback period.

Dry Year Security

Meridian notes that the security of supply objective has been changed from a '1 in 60 dry year' standard to be expressed in terms of a 'winter energy margin'.

Meridian queries whether the section on page 19 of the GPS relating to 'Hydro storage guidelines' is a reference to essentially the same work that has been completed by the Commission on the Minzone?

Reserve Energy

Meridian notes that the following paragraphs are no longer in the GPS:

"The Commission should seek to minimise the impacts of reserve energy scheme on the 'ordinary' market. The Commission should adopt a tight ring-fence whereby reserve energy may be used only for security of supply objectives This will minimise the extent to which incentives to invest in ordinary generation and demand-side management are affected." (para 56 of October 2006 GPS)

"For the avoidance of doubt, the Government does not want the Electricity Commission to own reserve generation plant." (para 59)

Meridian queries whether this has been removed because it is no longer needed as the Commission has developed its reserve energy policy? Meridian submits it is essential that reserve energy is "ring fenced" such that it will minimise the extent to which incentives to invest in ordinary investment are affected, and that any trading strategies for reserve energy should be made publicly available.

Interrelationship with the Commerce Commission

Meridian notes that the government expects the Electricity Commission and the Commerce Commission to review their MOU with respect to a number of issues before 30 June 2008. Meridian requests that the newly drafted MOU is explicit about the role of the two Commission's with respect to the Electricity Industry Reform Act ("EIRA"), the Information Disclosure Regulations and the Distributed Generation Regulations particularly as they relate to lines businesses re-entering generation (potentially within their own network areas) and re-entering retail (again, potentially within their own network areas).

Meridian is aware that ENA is actively seeking the repeal of EIRA, and citing that sufficient protections are in place to ensure that anticompetitive practices by lines companies do not occur, namely the model use of system agreements, model approaches to distribution pricing and protections provided by the price control regime under the Commerce Act. Meridian does not share their view. To this end, Meridian considers that the Electricity Commission should

monitor the offering of (as well as take up of) the model use of system agreements in those networks where lines companies decide to re-enter retail and generation. Even if EIRA is not repealed the thresholds in the current Electricity Industry Reform Amendment Bill will allow lines companies to re-enter retail and generation without any constraints up to 10MW and up to approximately 10,000 customers. This means that there will be no use of system agreement between the in house retail business and the in house lines business, and no connection agreement between the in house generation business and the in house lines business. Meridian considers that this is likely to result in a reduction in retail competition in those areas where the lines business re-enters retail within their local network, rather than the increase in retail competition sought by the NZES. As a national retailer, Meridian considers this reduction in transparency and certainty a real concern, and a matter that the Electricity Commission and Commerce Commission must work on together.

Use of System Agreements

Meridian notes that it has been some time since the Use of System Agreements ("Agreements") have been up-dated. Given the fact that these agreements are likely to become more important as lines companies become more active in generation, Meridian submits that these agreements should be reviewed and up-dated.

Please call me if you wish to discuss this submission further.

Yours sincerely



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