

CORPORATE OFFICE

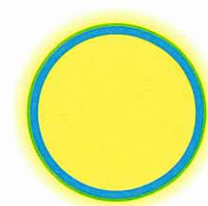
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4 April 2008

Electricity Group
Energy and Communications Branch
Ministry of Economic Development
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POWERCO



Dear Sir/Madam

**Submission on the Government Policy Statement on Electricity Governance
March 2008**

Thank you for the opportunity to comment on the draft Government Policy Statement on Electricity Governance (GPS). The draft GPS reflects the recent changes to the regulatory and policy environment and clearly signals the need for government agencies to work cohesively to create mutually reinforcing frameworks to deliver the government's policy objectives. Powerco is pleased to note that the inter-relationships between various aspects of the regulatory and policy regime are recognised.

The following comments suggest a number of relatively minor enhancements to the draft GPS.

Domestic consumer contracts

16 Powerco recognises the need for domestic consumer contracts to “*reflect the reasonable expectations of consumers*” but submits that for the contracts to be enduring and workable and therefore in the best interests of consumers, the counterparty (i.e. electricity retailers and distributors) should also have some protection. An additional clause could be added at the end of this paragraph along the lines of “..and are not unduly onerous for electricity retailers and distributors.”

Electricity efficiency

Powerco is pleased to note the extent to which the GPS seeks to clarify the relationship between, and the respective roles of Electricity Efficiency and Conservation Authority and the Electricity Commission. We support the idea of promoting a concentration of expertise and coordination of effort.

Transmission

Powerco submits that it would be useful to clarify that the transmission section of the GPS is applicable to the "national grid" as defined in the Electricity Act 1992¹. Perhaps the section could be entitled "The National Grid".

The second sentence of paragraph 88 states could be improved by acknowledging that although transmission does have strong natural monopoly characteristics there is competition at the margins. This could be achieved as follows:

Whilst recognising that may be competition at the margins, transmission has strong natural monopoly characteristics, which make it important that the Government sets out its policy expectations as to how transmission services should be provided and priced and how Transpower should operate.

These changes would recognise that Transpower is the owner and operator of the national grid and in many ways is a natural monopoly but that at the margins other parties do invest in transmission on a bilateral basis.

Pricing principles

The document details pricing principles for transmission and distribution in a range of different places, including paragraphs 48, 49, 89, 114 and 118. The development of application of pricing principles and methodologies is a complex and much debated process and reconciling competing objectives can be difficult. Powerco submits there would be value in the Ministry reviewing the document with a view to ensuring that the various pricing objectives and the incentives they seek to create are consistent.

The potential for inconsistencies is greatest in the Low Fixed Charge and Rural/Urban split of line charges. Care needs to be taken to ensure that the application of pricing principles is not inconsistent with current Government policies or the objectives of the Commerce Commission.

10 Inter-relationship with the Commerce Commission

The Government has set what could be described as "stretch targets" for the electricity and energy sector, they will not be achieved without government agencies working together to incentivise and inform markets. Paragraph 125 requests the Commerce Commission and the Electricity Commission to review their Memorandum of Understanding to specifically address a number of matters in relation to improving incentives for electricity lines businesses. Powerco strongly supports this initiative.

Yours sincerely



Paul Goodeve

Regulation, Pricing and Risk Manager

¹ Section 2 "the assets used or owned by Transpower for the purpose of conveying electricity".