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Energy & Communications Branch
Ministry of Economic Development
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Submission by the Electricity Networks Association on the draft Government Policy Statement on Electricity Governance

Our suggested amendments to the draft GPS (italicised, and with brief explanations where these suggestions are not self-evident) are set out in the attachment to this letter.

Alan Jenkins
Chief Executive

Submission by the Electricity Networks Association on the draft Government Policy Statement on Electricity Governance

Our suggested changes to a number of sections of the draft GPS are:

(Commission's powers and approach)

Add

- 1. The Government also recognises the importance of clear, stable requirements where electricity industry participants are regulated. In exercising its powers the Commission must be aware of and defer to the functions of the Commerce Commission in the administration of Part 4 of the Commerce Act.*

We recommend this addition because, notwithstanding the section on the Interrelationship with the Commerce Commission, we are aware of recent situations where the Electricity Commission has taken a position that leaves distributors believing they are exposed to conflicting signals from the two regulators. (An example is the NAaN assessment process, where the EC has formed its own position on distribution investment plans.)

(Key requirements for security of supply)

Add an additional bulleted item:

- Investment in the electricity system occurs ahead of projected need rather than on the basis of a fine-tuned assessment process aimed at matching commissioning dates with expected demand.*

While we recognise that the Electricity Commission has applied modelling assumptions that match its approvals of transmission upgrades with reasonably prudent assumptions about load growth servicing requirements, we accept Transpower's claims that it is becoming increasingly difficult to maintain acceptable security levels because renewal and expansion work sometimes has to be done without adequate back-up capacity available. In our view it is desirable to have such work undertaken ahead of demand in a number of situations, and the savings associated with achieving a close fit between investment and need are trivial compared with the potential costs of loss of load.

(Emergency management)

Add:

35. In developing and applying such contingency arrangements the Commission must identify practicable measures for ameliorating impacts on electricity users.

36. Compensatory arrangements recognising the value of lost load should be developed, based on market arrangements to procure demand reductions and, if necessary, to recognise sacrifices made by end users subjected to emergency management.

37. Distributors required to institute rolling outages or other emergency management processes should not be exposed to civil claims or other liability threats that might compromise their ability to take timely and effective action in the national interest. The Government expects the commission to make recommendations for any legislative changes needed to achieve this.

(Conveyance)

Add – at end of 63: *In doing this, the Commission must recognise the primacy of the Commerce Commission in regulating service quality and other line service functions under Part 4 of the Commerce Act, and should avoid adopting Rules or Codes that undermine or confuse this role.*

Again, we recommend this addition because, notwithstanding the section on the Interrelationship with the Commerce Commission, we are aware of recent situations where the Electricity Commission has taken a position that leaves distributors believing they are exposed to conflicting signals from the two regulators.

Add – under 71, to

- (the sub-bullet indicated): ...the services are priced in a manner that:
 - is transparent
 - fully reflects their costs including risk
 - *is consistent across transmission customer classes and customers*

We advocate this change because transparency in transmission charges is of little value if it is not there to support fair and neutral pricing. As an example to illustrate this, it would be unreasonably distortionary to price transmission services to (say) one or more major users, or to a retailer supplying delivered energy to a major user, on different terms to those applying to other customer classes, without clear and transparent reasons for such price differentiation.

(Cost recovery and pricing principles)

- Add to 99, (after pricing for new generation and load should provide clear locational signals)
- *such locational signals should reflect the transportation costs of moving electricity from remote sites, and not just the impacts on energy losses.*

(Distribution)

Delete 101

There has been no analysis to support this assertion, which in our view reflects a popular but unfounded retailer claim that the multiplicity of distribution arrangements is a barrier to competition. Distributors attempt to offer tariffs tailored to end-user needs, rather than to arrive at a one-size-fits all regime for the convenience of retailers. They also have to accommodate the GPS requirement to cross-subsidise rural consumers and other externalities that make distribution pricing increasingly complex.

Or add to 101

(after The Commission should consider whether standardisation and simplification of tariff schedules and contractual arrangements would facilitate market entry by retailers.)

It should also consider whether end users' ability to gain access to contractual arrangements for distribution that best meet their particular needs would be impaired. Before promoting the standardisation of tariff schedules it should obtain, and make available, clear and practicable guidance from the Commerce Commission for distributors to use to incorporate the impacts of section 102 of this policy statement into any standardised tariff schedules.

We believe that this change is necessary to accommodate the Policy Statement requirement for distribution companies to keep any changes to rural line charges in line with changes to urban line charges. Without such guidance distributors would have to use mechanisms to apply this cross-subsidy that would appear unreasonable to those consumers exposed to its costs.

(Interrelationship with the Commerce Commission)

Paragraph 109 specifically refers to work “in relation to improving incentives for electricity lines businesses” to be reviewed by the two Commissions by “30 November 2008”. This paragraph has been largely overtaken by the Commerce Amendment Act 2008, which assigns the following functions listed in 109 to the Commerce Commission. These three bulleted functions should therefore be deleted:

- *managing distribution losses*
 - *ensuring target security levels for distribution networks are met at least cost*
 - *facilitating investment in energy efficiency (including consumer end-use efficiency), demand side management and distributed generation.*
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