

SUBMISSION

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To: Ministry of Economic Development
Lisa White, Electricity Group
Energy and Communications Branch
Submitted by email to electricity@med.govt.nz

On the: Draft Government Policy Statement on Electricity Governance

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**SUBMISSION TO THE
DRAFT GOVERNMENT POLICY STATEMENT (GPS)
ON ELECTRICITY GOVERNANCE**

1. EXECUTIVE SUMMARY

- 1.1. Federated Farmers welcomes the opportunity to comment on the Draft Government Policy Statement (GPS) on Electricity Governance. We would welcome the opportunity to meet with the Ministry to further discuss the points raised in our submission.
- 1.2. Federated Farmers is also a signatory to a submission from the Consumer Coalition on Energy (CC93) and supports the points made in that submission. The Federation has some additional and specific concerns, however, around the new section in the Draft GPS on “Investment in Minor Transmission Works” and thus is also making this separate submission.
- 1.3. The Federation supports the general points made in the CC93 submission. We briefly reiterate those points here:
 - The power of Ministers to direct the Electricity Commission through the GPS should be removed. If the government wishes the Commission to have different primary objectives than those set out in the Electricity Act; then the Act should be changed. This approach would provide scrutiny by Parliament and public consultation through a Select Committee process.
 - Amending the Electricity Act to remove the power of Ministers to direct the Commission through revisions of the GPS will take time. In the meantime the GPS is part of the governance framework and a revision to emphasise the over-arching policy directions are consistent with an emphasis on supporting economic growth is needed.
 - We agree with the removal of the politically directed bias for consideration of renewable generation sources and evaluation of electricity efficiency proposals.
 - We also agree with the removal of the direction in the GPS for the Electricity Commission to make extensive use of advisory groups. If there were no GPS, we anticipate that the Electricity Commission would use advisory groups where it is believed they add value, as the Commerce Commission currently does. We view this discretion to be appropriate. However, we do not wish this view to be read as an indication that we believe advisory groups do not add value. We believe that advisory groups offer an opportunity for consumer representatives and suppliers to debate proposed changes more effectively than relying on an arms-length consultation and can provide greater transparency to the process.
 - We have major concerns with the new section titled “Investment in Minor Transmission Works”, or the streamlined approval process. This is a specific instruction that is contrary to our view, as stated above, that the GPS should not be used to direct the Electricity Commission. In addition no material has been provided clearly identifying what the policy problem is, what solutions have been considered and why the particular solution and threshold in the draft GPS is the best solution. This is a complex issue requiring careful weighing of the need for an expeditious approval process because of the risk that delays might affect transmission services; and on the other hand the need

to ensure works that are approved have been adequately scrutinised through an independent and robust regulatory process.

- 1.4. In addition to the points raised by CC93 on the issue of the streamlined approval process, the Federation opposes this process because it does not provide enough oversight by the Commission and does not provide the Federation reassurance that issues important to farmers that host Transpower infrastructure on their land will be addressed adequately.

2. SPECIFIC COMMENT – INVESTMENT IN ‘MINOR’ TRANSMISSION WORKS

- 2.1. The Federation opposes the threshold amount of \$20 million and the vast reduction by the Commission of oversight for many considerable Transpower projects. We are concerned that the Commission would no longer have authority to assess many projects which are likely to have significant impacts on our members. As you will be aware, the bulk of Transpower’s infrastructure crosses private land. This means that issues regarding compensation, liability and indemnification must be covered in easements between Transpower and private landowners whose land hosts that infrastructure.

Impacts on Landowners

- 2.2. Foremost, Transpower is currently required under the Electricity Act to provide compensation for projects that are new, or upgrades that are deemed to cause “injurious affect”. As we understand it, if the Draft GPS become final, the Electricity Commission is bound by legislation to consider a rule change to implement the GPS. It is unclear whether the streamlined approval process is intended to override the requirements for compensation or whether it intends to include that requirement but give Transpower discretion to fulfil it. Federated Farmers wholly opposes any change to existing legislation that would eliminate the requirement to provide compensation for new projects or upgrades that cause injurious affect.
- 2.3. In addition to compensation, Transpower also needs to consider liability, indemnification and access issues for easements negotiated to complete these projects. Federated Farmers has been working with Transpower over a number of years to try and resolve these important issues through a “draft easement agreement” that can be tailored to suit each individual. We are concerned that the streamlined approval process will signal to Transpower that it is unnecessary to continue working toward suitable easement agreements with landowners.
- 2.4. It is paramount that any new projects or upgrades, regardless of the investment amount, are subject to a suitable easement between Transpower and private landowners that adequately covers compensation, liability, indemnification and access issues. Even if the projects are not for new infrastructure or deemed to cause “injurious affect”, it is still important that the Commission has the authority to provide oversight in the event that the impacts are significant.
- 2.5. In no way would we consider \$20 million a “minor” investment. For an indication of scale, we provide the following example: as part of its Accelerated Works Plan, Transpower intends to paint and re-concrete nearly every pylon in New Zealand. Painting is estimated at \$50 million. Re-concreting is also estimated at \$50 million. Although \$50 million is more than twice the identified threshold of \$20 million, we raise it here to illustrate the fact that these projects cover the entire country. If only half the pylons were either painted or re-concreted, the estimated amount would be

\$25 million – only slightly above the threshold. Both these projects require access to each property, and should certainly not be considered “minor”.

- 2.6. Further, several tactical transmission projects currently taking place throughout the country are in the range of \$20 million. The Islington - Livingstone 1 Duplexing project was originally estimated at \$25.8 million. This project involves duplexing the line, which requires access to each pylon on a property. This is not a minor issue for our members. The Commission has since approved an increase in amount to \$30.836 million or the actual nominal cost of the project at the time of commissioning, which would require approval under the Draft GPS. However, our concerns remain. We can see no measures in place to provide oversight in accuracy of figures submitted by Transpower or assurances that the Commission would have any oversight to consider impacts of the projects.
- 2.7. By way of another example, the total amount requested by Transpower for 30 tactical transmission upgrades (in April 2005) was \$158.23 million. These projects range from a cost of \$250,000 to \$32.5 million. While some of these projects could be considered minor and should perhaps not be subject to a rigorous approval process, many of the projects would require duplexing, thermal upgrading or reconductoring. Each of these upgrades will likely require access to private property and should be subject to Commission oversight.
- 2.8. Finally, we are concerned that the \$20 million threshold could provide “fast-tracking” for projects where costs have been under-estimated. This could occur through legitimate errors in creating the proposal or by splitting a larger project into several smaller projects over a number of years.
- 2.9. As an example of the first scenario, we would put forward the Waikato-Auckland line proposal. When that proposal went to the Electricity Commission, the cost was based on corridors of a far smaller width than what actually became necessary following developments under the designations process. Subsequently the cost of the project is increasing significantly, as are the easements necessary to complete the project. Having a \$20 million threshold would allow future faulty proposals to go forward with no oversight. We are also concerned that even a \$60m project (as an example) could come under the \$20 million threshold if Transpower chose to signal in its plans that it would complete small sections of a larger project as individual projects. Under the Draft GPS as written, Transpower could circumvent the rules in this way with no oversight and no repercussions. Federated Farmers is of the strong view that neither of these scenarios are appropriate and should be avoided.

Ambiguity/Lack of Directive

- 2.10. We are concerned about the lack of an actual directive to Transpower. The way the Draft GPS is currently written the Government “seeks” several ambiguous outcomes and Transpower is directed only that they “should” provide the most basic due diligence. Given the significance of the projects that may be undertaken that are under \$20 million we do not find this language at all reassuring.

The Draft GPS reads:

The Government seeks the following outcomes:

These upgrade plans should demonstrate the rationale for all expenditure (operational, maintenance and capital), taking into account good industry practice for power system operation;

These upgrade plans should undertake the detailed planning role; it should consult with materially affected parties, and have regard to all submissions or objections received prior to submitting the grid upgrade plan to the Commission;

Once the Commission has received a grid upgrade plan the Commission should approve the plan without undue delay provided it is satisfied that Transpower has complied with the requirements above;

The Commission should not be required to assess and evaluate the merits of small investment plans of a value less than \$20 million.

(underlining for emphasis)

- 2.11. In our view, this elusive language allows Transpower nearly unlimited authority to move forward with projects that may or may not be appropriate spending. Whilst we recognise that Transpower is the national grid operator and would certainly allow for an appropriate amount of discretion in this regard, we do not think a carte blanche figure of \$20 million is suitable. Further, the process set out in the Draft GPS encourages the Commission to approve these “small investment plans” without undue delay once it is satisfied that Transpower has complied with the requirements above.
- 2.12. We do not view “should” statements as requirements, nor do we find it reassuring that the Commission is being directed to approve projects that are highly likely to have significant impacts without undue delay.
- 2.13. The Federation believes that designating a \$20 million threshold, accompanied by a streamlined approval process that encourages Transpower to bulldoze forward and the Commission to approve with miniscule direction, compromises the procedure necessary to determine what the impacts may be and to address them accordingly.
- 2.14. In addition, as pointed out by CC93, no material has been provided clearly identifying what the policy problem is, what solutions have been considered and why the particular solution and threshold in the draft GPS is the best solution. Without that process occurring, Federated Farmers opposes the new section in its entirety.

ABOUT FEDERATED FARMERS OF NEW ZEALAND

Federated Farmers of New Zealand is a primary sector organisation that represents rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.

The Federation aims to add value to its members’ farming business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.