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Ministry of Economic Development
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To whom it may concern,

Draft Government Policy Statement on Electricity Governance

Introduction

1. Thank you for the opportunity to make a submission on the draft update of the Government Policy Statement on Electricity Governance (Electricity GPS), dated February 2009. No part of Mighty River Power's submission is confidential and we are happy for it to be made publicly available.

Purpose of the amendments

2. Mighty River Power supports amending the Electricity GPS in order to:
 - a. Emphasise the priority the government accords to security of supply policy (though we do not believe reordering the sections in the GPS achieves this);
 - b. Express the government's desire to facilitate small grid upgrade investments by streamlining the investment approval process; and
 - c. Remove references to the New Zealand Energy Strategy (NZES) and New Zealand Energy Efficiency and Conservation Strategy (NZECS).
3. Mighty River Power considers the changes to be relatively straight-forward and that they should be relatively non-controversial. As with removal of the ban on thermal generation, prior to a more fulsome review of the Emissions Trading Scheme, Mighty River Power supports the Government's approach of making pragmatic changes to the Electricity GPS at this stage, rather than waiting until a more comprehensive review of electricity policy (for example, in relation to whether or not the Electricity Commission is disestablished).

Investment in minor transmission works

4. Mighty River Power is generally supportive of the new text in paragraphs 87 and 88, including the use of \$20 million as a threshold between small and large upgrades. We have been concerned that the Electricity Commission gets too heavily involved in grid planning; particularly for smaller investments.

5. The main thing we would like to emphasize is the need for the consultation by Transpower to be genuine. If Transpower has not adequately taken into account the views expressed by submitters then the Electricity Commission should not have to effectively rubber stamp Transpower's sub-\$20 million projects. There is also a risk Transpower may divide larger projects to meet the \$20 million threshold, resulting in inefficient outcomes. Mighty River Power expects the Electricity Commission to monitor such behaviour.
6. The review of the roles of Transpower, the Electricity Commission and the Commerce Commission in relation to transmission investment/Part F is likely to result in this new text eventually being superseded.
7. Mighty River Power is of the view that only one regulatory body should be responsible for price control of Transpower and that body should be the Commerce Commission. We are of the view that:
 - a. Responsibility for the Electricity Commission's functions (transmission pricing methodology setting, service quality setting, and transmission investment approval) under Part F of the Electricity Governance Rules should be transferred to the Commerce Commission; and
 - b. The provisions in section 54R of the Commerce Amendment Act 2008 allowing for transfer of responsibility for price control of Transpower from the Commerce Commission to the Electricity Commission should be deleted.¹
8. Our views on this matter are also reflected in section 8 of the attached submission to the Commerce Committee on the Commerce Amendment Bill 2008 (9 May 2008), and the submission to the Ministry of Economic Development on Jurisdiction under Part 4A of the Commerce Act in respect of Transpower (19 December 2005).
9. In our recent submissions to the Electricity Commission on Transpower's North Auckland and Northland (NAaN) Grid Upgrade Proposal we expressed concern that not only were different aspects of price control of Transpower administered by two different regulators, but they were being administered with two different objective statements.
10. The Commerce Commission operates price control to promote the long-term benefit of consumers, whereas the Electricity Commission operates Grid Investment approval to pursue six different, and sometimes conflicting, objectives contained in section 6.3 of Part F. Rule 6.3.2 focuses on the interests of end-users and costs to end-users, which is broadly consistent with the Commerce Commission's objective, but the focus of Rules 6.3.1 and 6.3.4 is purely focussed on efficiency:

¹ The provisions for transferring of responsibility for price control of Electricity Distribution Businesses from the Commerce Commission to the Electricity Commission were deleted, as part of the 2008 changes to the Commerce Act.

6.3 Objectives of grid investment test

The Board must have regard to the following objectives in developing, and in any subsequent review of, the grid investment test:

- 6.3.1 promoting economic efficiency (including energy efficiency) in transmission and the wholesale electricity market;
- 6.3.2 as far as practicable reflecting the interests of end use customers in ensuring a reliable transmission system having regard to the cost to end use customers;
- 6.3.3 reflect a reasonable economic assessment of the balance between different levels of reliability and the expected value of energy at risk;
- 6.3.4 enabling selection of transmission upgrade options that maximise the total net benefits to those who produce, distribute and consume electricity after taking into account transmission alternatives;
- 6.3.5 promoting certainty for investment in transmission, generation and transmission alternatives and investment contracts;
- 6.3.6 facilitating outcomes acceptable to Transpower and designated transmission customers.

Proposed deletions

11. We comment on each of the specific changes below:

- a. Foreword: Mighty River Power supports the deletions in the Foreword.
- b. Advisory Groups: Mighty River Power considers that the role of Advisory Groups should be considered in the context of the review of the status of the Electricity Commission.²
- c. New Zealand Energy Strategy and New Zealand Energy Efficiency and Conservation Strategy: Mighty River Power supports the deletion of this section.
- d. Security of supply: The only change has been to shift this from section 6 to section 2. Reordering the GPS will not have the affect of emphasising the priority the Government accords to security of supply. This could be readily addressed by adding a sentence to the effect that the Government considers maintaining electricity security of supply to be a high priority for the Electricity Commission.
- e. Electricity efficiency: Mighty River Power supports deletion of paragraph 61. Mighty River Power would go further in that we believe responsibility for electricity efficiency should be the sole responsibility of EECA.³
- f. Discount rate: Mighty River Power supports deletion of this section.
- g. Renewable energy: Mighty River Power supports deletion of paragraph 75.

² Mighty River Power's views on the appropriate role of Advisory Groups are contained in the attached submission we recently made to the Electricity Commission.

³ Mighty River Power's views on this matter are contained in the attached submission to the Electricity Commission on "Proposed work priorities and appropriations for 2008/09".

- h. Integration Issues: Mighty River Power supports the deletion of paragraph 78. It should be Transpower's role to provide technical planning solutions to enable wind integration

Concluding remarks

12. If you have any queries regarding Mighty River Power's submission, or would like further information, please do not hesitate to contact me.

Yours sincerely,

Robert Allen
Regulatory Manager