



**DRAFT GOVERNMENT POLICY STATEMENT ON
ELECTRICITY GOVERNANCE
FEBRUARY 2009**

SUBMISSION TO THE MINISTRY OF ECONOMIC DEVELOPMENT

16 March 2009

Executive Summary

1. Powerco Limited (Powerco) welcomes the opportunity to provide comments on the Draft Government Policy Statement on Electricity Governance (the “draft GPS”). Powerco notes that the Minister for Energy and Resources has announced the creation of a Ministerial Working Party to reshape the regulatory functions of the electricity sector, and that this may lead to a substantial rewrite of the draft GPS. With this in mind, Powerco’s comments focus on the Ministry’s changes to the draft GPS and immediate issues of concern to Powerco.
2. In summary Powerco:
 - supports the greater emphasis on security of supply in the draft GPS
 - supports the proposal for investment in minor transmission works
 - recommends that the GPS should state regulatory principles by which the Electricity Commission should operate
 - recommends areas of the New Zealand Energy Strategy that the Ministry should focus on as part of its review of the Strategy.

Comment

Security of supply

3. Powerco supports bringing forward the section on security of supply and greater emphasis being placed on this issue. Distributors are interested in security of supply as we are the final stage of the energy delivery process and are the parties who would deliver rolling cuts if they were required. Powerco supported the Electricity Network Association’s (ENA) recommendations to the Electricity Commission’s Winter Review and the importance of considering the impact of rolling cuts on consumers and the effectiveness of rolling cuts in addressing the problem. Powerco also looks forward to inputting into the amendments to the Resource Management Act to make it easier for the electricity industry to invest in measures to improve security of supply.

Proposal for investment in minor transmission works

4. The main change in the GPS is the new policy in relation to approving minor transmission works. Powerco supports the addition of paragraphs 87 and 88 (Investment in minor transmission works) and any effort in general by the Government to promote a more reliable and robust transmission network.
5. Initiatives to streamline the transmission investment process and help create a sustained period of transmission investment in New Zealand are very much needed. Powerco supports the intent of the proposals to remove complexity and overlap, without changing fundamentally the underlying economic or reliability standards, the transparent consultation process or the economic efficiency objectives of Section III, Part F.
6. We believe that the proposed process is consistent with the principles in part F for several reasons. The process in the draft GPS requires a sufficient level of economic analysis to be conducted and for comparisons to be made between alternative options. Powerco believes that the analysis would be conducted in a prudent manner, relative to the anticipated level of expenditure.
7. Proposals would reflect good industry practice and proposed investments would be consistent with Grid Reliability Standards for the core grid. From both a transmission and distribution perspective, this is intrinsically linked to security of supply issues. Powerco also agrees that Transpower should be required to consult on all proposals and demonstrate to the Electricity Commission that the views of those consulted with have been taken into account. This is currently the case with investments undertaken within the Powerco region.

Regulatory principles

8. Powerco recommends that the GPS includes regulatory principles by which the Electricity Commission should operate. Utility businesses are critical to the economy and require continual investment. The key requirement for investing in infrastructure businesses is having certainty of regulation, including the regulation imposed by the Electricity Commission.

9. CASE Associates formed the following characteristics of best practice or high quality regulation:
 - efficiency
 - independence
 - accountability
 - transparency
 - balance
 - consistency
 - predictability
 - timeliness.

10. For example, independence from political interference provides investors with confidence that intervention will be based on technical and objective reasoning. Accountability ensures regulators are open to scrutiny on the merits or substance of their decisions. Transparency of decision-making assists accountability and credibility. Balance manages the trade-off between certainty and flexibility - to give stakeholders confidence on the one hand, and reacting to changes influencing regulatory objectives on the other.

The Ministry's review of the New Zealand Energy Strategy (NZES)

11. Powerco notes the Minister for Energy and Resources' intention to review the New Zealand Energy Strategy, and assess any duplication with the New Zealand Energy and Efficiency Conservation Strategy. Powerco looks forward to inputting into the review and makes the following comments on the NZES.

12. The shift towards a more sustainable energy sector will involve trade-offs and compromises. Powerco's view is that we should look to optimise any investment in renewable generation rather than maximise investment. This is on the basis that optimising investment will take into account any potential conflict of policy objectives associated with the shift towards a more sustainable energy sector.
13. A key component of a sustainable energy sector is reduction of greenhouse gases. Powerco believes the NZES has led to a particular focus on the generation of electricity with not enough focus given to transmission and distribution. Powerco believes the particular focus on generation will have a detrimental effect on the ability of the strategy to achieve its policy objectives, namely energy policies which will:
- protect security of supply;
 - promote energy efficiency measures; and
 - promote low emissions energy sources.
14. Powerco has serious concerns over the treatment of the gas sector in the NZES due to the fact gas is defined as an emissions emitting and non-renewable fuel. We strongly believe that gas has a large part to play in improving electricity efficiency. Gas has often been viewed solely as a fuel for generating electricity. However, the direct use of gas by consumers e.g. for hot water heating is far more efficient than using gas to generate electricity for the same end-user purposes. In terms of improving electricity efficiency, more direct use of gas could have numerous benefits, including:
- reducing electricity peak load demand;
 - reduced greenhouse gas emissions by using less gas to deliver the same energy requirements;¹
 - a strong gas market could help reduce reliance on coal and other less environmentally sustainable energy sources.

¹ For example, shifting 1PJ of gas to direct use (away from indirect use in generating electricity) can save between 1 and 3PJ in fuel conversion losses.

15. Powerco notes MED will be analysing any duplication of the NZES with the New Zealand Energy and Efficiency Conservation Strategy. Powerco is supportive of strategies designed to improved electricity efficiency and energy efficiency in general. As a distribution network operator, Powerco is well positioned in terms of our regional locations and proximity to customers to assist in end-to-end delivery of products and services designed to improve energy efficiency.

Advisory Groups

16. Powerco notes that paragraph 7 (Advisory groups) has been removed. Powerco would be interested in understanding more about why this has been removed and what will take the place of advisory groups. We would also like to learn more about how the Ministry envisages consultation within the electricity sector going forward.