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Ministry for Economic Development
PO Box 10362
WELLINGTON 6143

Submission to the Government Policy Statement on Electricity Governance

Part A - General

A.1 Introduction

This submission is a combined submission made by Rank Group and Carter Holt Harvey Ltd (CHH).

Rank Group is a New Zealand investment company with business interests in many countries. Rank Group has a serious interest in matters relating to energy in New Zealand being the 100% owner of Carter Holt Harvey Ltd, Australasia's largest wood products processor and one of New Zealand's major energy users.

Energy supply is the world's single largest commercial activity, we depend heavily on it for our economic well-being and there are major structural changes in terms of energy availability and supply ahead of us that we can only ignore at our peril.

New Zealand should have a significant competitive advantage as the result of affordable energy based primarily on renewable energy sources. Unfortunately, we appear to be losing our competitive advantage with respect to electricity.

If we are to accept that climate change is mankind's greatest threat then energy becomes even more important given anthropogenic climate change is principally about the consumption of fossil energy. The reality is mankind will never find a solution to anthropogenic climate change without solving the energy supply crisis first.

A.2 Overall Governance

We strongly believe New Zealand needs to place a greater focus on energy that we perceive the focus to currently be.

Because we regard energy as being so critically important we struggle to understand why the Ministry of Energy was abolished some twenty years ago. What we now have is our arguably most important economic factor outside of human capital administered by multiple government ministries and agencies with a sticking plaster fix mentality to cover

the cracks in the system. We regard the Electricity Commission as symptomatic of the problem in that it was an ill-considered response to a perverse outcome of deficient policy settings. In our opinion the Electricity Commission has failed to ensure “*that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner and promoting and facilitating the efficient use of electricity*”. If the structure was unbroken we wouldn’t be having the number of reviews both past and currently in hand.

Furthermore, while electricity is critical to New Zealand’s energy mix we do not believe that it can efficiently managed independently of the other components within the energy mix. While this remains the situation New Zealand will not productively exploit the full range of energy opportunities that the nation has available to it.

We consider that the current recession and expected energy demand destruction offers New Zealand a window of opportunity to take stock of how we manage energy. In particular given that energy consumption and anthropogenic climate change are fundamentally synonymous energy strategy and climate change response policy should be managed by the same agency.

Recommendation 1:

Place all energy functions under the management of a single Energy Agency, including giving serious consideration to the Energy Agency being made responsible for climate change response policy.

A.3 The New Zealand Energy Strategy

In a large part the purpose of the proposed amendments to the GPS is to remove the requirement for the Electricity Commission to give notice to the previous Government’s New Zealand Energy Strategy (NZES). We are generally supportive of such an action because, while we believe New Zealand needs a pragmatic and flexible energy strategy, we regarded the NZES to fundamentally be an artefact to promote the previous Government’s flawed climate change response policies. In our opinion those climate change policies are highly regressive and guaranteed to produce perverse outcomes that would be significantly damaging to New Zealand’s economy while producing few if any GHG abatement benefits. We have and will continue to debate the need for appropriate climate change response policies in other fora

Given the importance we place on energy supply and security we believe it is incumbent on the Government to prepare a pragmatic and flexible energy strategy. In doing so there should be no scared cows. An open and inclusive energy strategy development pathway will in our opinion flush out a significant number of energy opportunities that are currently systemically repressed.

Recommendation 2:

The Energy Agency is directed to prepare a pragmatic and flexible energy strategy for New Zealand, including climate change response strategy if this is an agency responsibility. This will provide the sound policy necessary to optimise New Zealand’s energy opportunities.

Part B - Specific Comments to the Draft GPS

We have taken the opportunity to review the entire document including a number of clauses that remain unaltered. We will only refer to those sections on which we wish to comment.

(1) Commission's powers and approach

Innovation (s.7-8)

It is our opinion that the current fragmented governance structure for the energy sector constrains rather than facilitates innovation.

(3) Security of supply

Key requirements of security of supply (s.11)

In our opinion the key requirement for security of supply is quality policy settings, everything else flows from this.

Security of supply objective for the Electricity Commission (s.12-16)

We regard the supply objectives to be a constraint on the basis that New Zealand could explore a number of other electricity supply security opportunities if we were more flexible in the way we look at our energy resources. As an example we believe there are opportunities that have been suggested to avoid the need for the proposed 440 kVA transmission line from the Central North Island to Auckland, however under the current regulatory structure the ideas will never receive the due consideration they deserve.

Security of supply policy (s.17-19)

We have serious concerns that the Electricity Commission is both the regulator and reserve energy generator. The price mechanism for Whirinaki's generation entering the marketplace arguably delivers the opportunity for the market to be gamed.

In accordance with our above comments on s.12-16 we consider that the objective should be policy delivering greater flexibility into the electricity market which will in turn will remove a number of the existing supply constraints. *which*

Information, forecasting and monitoring (s.20-23)

Again, if more flexible energy strategy is developed the capacity and reserve energy sides will take care of themselves.

Hydro storage guidelines (s24-25)

We consider that response strategies should be put in place for extreme event occurrences. However, the use of return period methodologies is often an inappropriate mechanism for security of supply purposes. In our opinion it is better to have greater flexibility in our generation capacity and demand side management than to rely on such indicators as the “minzone”.

Reserve Energy (s26-32)

As we discuss above more flexible policy around energy will take care of the reserve energy side plus we have serious concerns about the Whirinaki price mechanism and the opportunity for it to be gamed.

Levy (s35-36)

We do not believe we get fair value for the monies we pay the Electricity Commission under the levy system. We recommend an independent review is taken of the value delivery of the levy.

Review (s37)

We do not consider the reporting by the end of 2012 of the review of the electricity security standards and policies is in any way appropriate given the fundamental importance of electricity supply. In particular in the absence of new natural gas discoveries there are likely to be supply constraints by 2015. Reporting by the end of 2009 would be both desirable and achievable.

(4) Electrical Efficiency (s.54-60)

The fact that the Electricity Commission has to work with the EECA (s.55-60) through a memorandum of understanding and “*a number of agencies have responsibilities that support improved energy efficiency in the stationary energy demand sector*” (s.56) supports our argument for the establishment of a single Energy Agency.

End-use (s.64)

We see s.64 as another overlap of responsibility between the Electricity Commission and the EECA.

(5) Renewable Energy (s.65-66)

We struggle to see how s.66 can be sustained if previous s.78 “Integration issues” is deleted.

Integration issues (previous s.78 deleted)

The intent of deleted s.78 is pivotal to New Zealand developing its renewable resources outside of hydro and geothermal. We recommend that s.78 be reinstated.

(7) Transmission

Background (s.70)

The treatment CHH has received in relation to access to its land for high voltage transmission lines have been fraught with difficulty to the extent that is consistent with a degree of monopolistic behaviour. We fully support policies that negate the opportunity for any lines company to exhibit such monopolistic behaviour. S.89-92 suggests to us that landowners should be fairly compensated on what we would expect to be a Public Works Act equivalent compensation basis, such as for the taking of land for road widening, with Transpower being able to recover the fair costs in their line charges. Our experience has been that there is almost an attitude of eminent domain over our land.

Objectives for the provision of transmission services (s.71)

The fifth bullet point sets objects relating to renewables and climate change. This section is consistent with the re-insertion of previous s.78 and our recommendation of a single Energy Agency responsible also for climate change response policy.

Investment in minor transmission works (s.87-88)

We are generally supportive of small grid upgrade projects being fast-tracked provided the rights of affected landowners are fully protected. In administering the threshold care needs to be taken to ensure projects costing more than the threshold are not slid through the system by being broken down into sub-projects each costing less than the threshold.

Planning ahead (s.89-92)

As we state above s.89-92 suggests to us an acceptance that landowners should be fairly compensated on what we would expect to be a Public Works Act equivalent compensation basis, such as for the taking of land for road widening, with Transpower being able to recover the fair costs in their line charges. Because this has been a matter of significant dispute we recommend that a more concise statement of land-owners' rights are incorporated into this GPS.

Transmission alternatives (s.95-96)

In equity we believe the scope of transmissions alternatives that qualify to receive payments should include distributed generation that avoids investment on transmission infrastructure.

(8) Distribution

Use of system agreements (s.103)

With respect to the first bullet point (also ref s.110) regarding arrangements for connecting distributed generation we consider that greater focus should be given to this opportunity. Similarly, with respect to the fourth bullet point regarding load management we consider that a review of the coverage of hot water ripple control should be undertaken with a view to ensuring the maximum opportunity to utilise this for demand management. Our understanding is that there has been a significant rundown in ripple control capability since the electricity market reforms.

(10) Distribute generation (s.110)

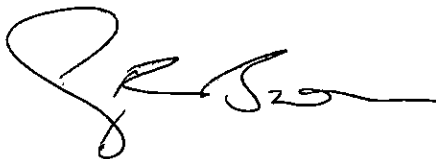
We concur with the need for greater focus on achieving outcomes (refer also s.103). Unfortunately, we have not seen a lot of progress in terms of support of this objective by the lines companies.

Access to lines (s.111)

We strongly concur with the need to facilitate the interconnection of domestic scale distributed generation into distribution networks.

We would be please to discuss our submission in greater detail if so wished.

**Yours faithfully,
Rank Group Ltd**

A handwritten signature in black ink, appearing to read 'Graham Brown', written in a cursive style.

Graham Brown