

16 March 2009

Electricity Group
Energy & Communications Branch
Ministry of Economic Development
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Draft Government Policy Statement (GPS) on Electricity Governance – February 2009

Unison Networks Limited (Unison) is a large electricity lines business (ELB), providing electricity services to over 105,000 consumers in the Taupo, Rotorua and Hawke's Bay regions.

Unison appreciates the opportunity to review the draft GPS, and would like to submit the comments below.

Unison has viewed a draft version of the submission prepared by Electricity Networks Association (ENA), and supports the comments contained in this submission.

Commission's powers and approach

Unison agrees with ENA's proposal for recognition of the Commerce Commission, and its role of administering Part 4 of the Commerce Act in the "Commission's powers and approach" section. This is a major legislative change that affects the Electricity Commission's powers and process of decision making.

New Zealand Energy Strategy (NZES) and New Zealand Energy Efficiency and Conservation Strategy (NZECCS)

Unison is supportive of the removal of 'New Zealand Energy Strategy and New Zealand Energy Efficiency and Conservation Strategy', in the anticipation of the NZES and the NZECCS being reviewed later in the year. Unison considers that the deletion is consistent with the shift in focus in relation to the electricity sector caused by the change in government. The focus of the Labour Government was on energy efficiency and sustainability, whereas, the National Government supports a target of achieving 90% renewable energy (but only in the context that there is not a risk of security of supply).

Unison supports the use of an achievable target taking into account the need for supply security, including fuel and locational diversity of supply. Unison considers that renewable energy is the sustainable option to pursue, however the Resource Management Act does need to be seriously reviewed and changed to enable renewable energy growth. The renewable energy option needs to be encouraged at the local (distributed generation) and national level, that is, the policy position needs to recognise the value of fuel and location diversity.

Security of supply

Unison is supportive of the Government's continued attention on security of supply, especially the acknowledgement in paragraph 11 "*the national grid and distribution lines meet specified reliability objectives*".

Incentives to invest for growth and security need to be improved in the distribution sector as well as for transmission. The new s52A(1)(a)¹ purpose statement specifically includes the objective that suppliers are to "*have incentives to innovate and to invest, including in replacement, upgraded, and new assets*". This change from the old Part 4A Purpose Statement is a clear signal that change was required, and that care needs to be taken that regulatory constraints do not remove investment incentives².

To ensure security of supply, regulatory arrangements should be sufficiently certain to promote investment, coupled with the ability to plan a long term investment programme. At the present time distribution businesses are curtailed in their ability to justify long term expenditure to regulators by the asset management planning period of 10 years.

Unison agrees with ENA's recommendation that a paragraph is required to emphasise that investment is required ahead of projected need. Delayed, last minute investment often means security of supply is already at risk.

Interrelationship with the Commerce Commission

Unison is supportive of how section 9 of the draft GPS sets out the interrelationship between the Commerce Commission and the Electricity Commission with regard to the regulation of Transpower and distribution businesses.

Paragraph 109 requests the Commerce Commission and the Electricity to review their Memorandum of Understanding to specifically address a number of matters in relation to improving incentives for electricity lines businesses. Unison suggests that the proposed date of 30 November 2008 is amended to a date in 2009.

Unison agree with ENA's comments that the following three bulleted functions listed in paragraph 109 have been assigned³ to the Commerce Commission, and therefore are no longer required in the GPS:

- managing distribution losses
- ensuring target security levels
- facilitating investment in energy efficiency (including consumer end-use efficiency), demand side management and distributed generation.

¹ Commerce Amendment Act 2008

² CRA International Report prepared for Unison Networks Limited "Regulatory Provisions of the Commission" in response to the Commerce Commission's Discussion Paper – 9 December 2008; 16 February 2009

³ Commerce Amendment Act 2008

Investment in minor transmission works

Unison is supportive of the change to facilitate small grid upgrade investments of the transmission network by streamlining the investment approval process. Unison views it as a noteworthy move towards much needed improvements in the regulatory regime for transmission investment.

The process for where the total cost of a project is less than \$20 million, will reduce duplication of analysis work and align the economic analysis proportionate to the size of the proposal. The key advantage for Transpower will be the increased certainty in respect to long term grid investment planning for maintenance, replacement and refurbishment and upgrades to the transmission grid.

Unison would like to emphasise that lines businesses need the same certainty, and the ability to undertake necessary investment as well.

Pricing methodologies

Unison would like to refer to their previous submission⁴, and the concern highlighted in respect to distribution pricing. Whilst Unison appreciates that simplification and standardisation are desirable outcomes, the distribution pricing must recognise the differing circumstances of the various distributors in New Zealand, and therefore the different customer groups and economic signals that they may need to deal with and send in the market place. On the basis that there has been no analysis undertaken to support the assertion, that the diversity and complexity of the terms and conditions offered by distribution businesses is a significant barrier to expansion of retail competition, Unison would recommend the removal of paragraph 101.

Should you require further information or have the need to consult with Unison further on this submission, please contact Amanda Reid in the first instance on (06) 873 9372.

Yours sincerely,



Amanda Reid

Regulatory Affairs Analyst

⁴ Unison's submission; "Draft Government Policy Statement on Electricity Governance (March 2008); 4 April 2008